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ABSTRACT

This report examines trends in the incomes of single mothers and their children during a pair of consecutive two-year periods, 1993-95 and 1995-97, considering changes in earnings and changes in safety net programs that provide them with income. Chapter 1, "Introduction," reviews the issue. Chapter 2, "Participation Has Declined Faster than Poverty," examines declines in participation in food stamp and Aid to Families with Dependent Children/Temporary Assistance for Needy Families (AFDC/TANF) programs in recent years. Chapter 3, "How Have Single-Mother Families Fared?" analyzes the income of single-mother families and how it changed over these periods. Chapter 4, "Safety Net Lifts Fewer Children from Poverty," examines recent trends in child poverty, using alternative definitions of poverty. Chapter 5, "Why Are Caseloads Declining?" cites other studies and discusses factors that have caused declines in food stamp, Medicaid, and AFDC/TANF caseloads and whether TANF caseload declines have contributed to participation decline in food stamps and lack of increased enrollment in Medicaid despite expansions in Medicaid eligibility. The disposable income of single-mother families rose broadly and substantially between 1993 and 1995. From 1995 to 1997, reflecting the beginning impact of welfare reform, many single-mother families experienced no net gain in total income, and often experienced a fall in their disposable income. Appendix A presents evidence that including the income of unrelated men who live with single-mother families does not fundamentally affect study results. Appendix B describes the study data and methodology. (Contains seven tables of economic data.) (SM)

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The Initial Impacts of Welfare Reform on the Incomes of Single-Mother Families

Wendell Primus
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Executive Summary

Dramatic declines in recent years in the number of people receiving cash welfare benefits and food stamps have contributed to the conventional wisdom that the new welfare reforms are working very well. Caseload reduction by itself, however, is not an adequate measure of success. The ultimate criteria for measuring success also should include whether the well-being of children and families has improved. That could occur in a number of ways: through increased labor force participation and earnings of custodial parents, increased child support collections received by custodial parents, or an increase in the number of children who reside with both parents.

Several developments have enhanced the economic well-being of the nation's poorest families with children in recent years. Strong economic growth, unusually low unemployment rates, continued expansion of the Earned Income Tax Credit (EITC), and welfare policy changes have contributed to an increase in employment and earnings among poor families. At the same time, however, changes in low-income programs have led to sharp decreases in the number of families receiving means-tested cash and food assistance benefits and the income that such benefits provide.

Data that begin to shed light on the combined effect of these two divergent trends on the economic well-being of poor families with children are just becoming available. This study focuses on the effects of these two trends on single-mother families and their children. Nearly half of all single-mother families have incomes below the poverty line before the effects of government benefits are considered. Many more such families have incomes only modestly above the poverty line. This study uses Census data to compare income trends during a pair of consecutive two-year periods, 1993 to 1995 and 1995 to 1997, during both of which the economy continued to grow.

Findings

The disposable incomes of single-mother families rose broadly and substantially between 1993 and 1995. Data from 1995 to 1997, however, which cover the period just before and just after the federal welfare law was enacted in 1996, tell a different and less promising story. Despite continued growth in the national economy and further expansion of the EITC, the average disposable income of the poorest fifth of single-mother families *fell* during this period, with the primary factor causing the decline being a drop in means-tested benefits that substantially exceeded the decline in need. Many other low-income single-mother families experienced increases in earnings during the period that were offset entirely by benefit declines, leaving the families without any economic gain.

Caseload Declines Exceed Decreases in Need

Participation in the Aid to Families with Dependent Children (AFDC) and food stamp programs began to decline in 1994; this decline was gradual but accelerated after enactment of the federal welfare law. The first part of this analysis examines how recent declines in AFDC/TANF (the Temporary Assistance to Needy Families block grant program that replaced AFDC) and food stamp participation compare with changes in the incomes of poor households. The central finding is that the drop in participation between 1995 and 1997 is much steeper than can be explained by increases in the earnings of poor households. In other words, caseloads declined more rapidly than economic need.

- From 1995 to 1997, the number of people receiving AFDC/TANF benefits fell by three million, or 22.2 percent. But the number of people in single-mother families that were poor before receipt of means-tested benefits declined only 770,000, or 5.4 percent.

- Similarly, between 1995 and 1997, the number of people receiving food stamps fell 16.6 percent, while the number of people below the poverty line before receipt of means-tested benefits fell 2.9 percent.

- In 1995, some 57 children received AFDC cash assistance for every 100 children who were poor before receipt of benefits from means-tested government programs. In 1998, only an estimated 40 children received cash assistance for every 100 such poor children, the lowest proportion of poor children receiving cash aid for any year since 1970. In the food stamp program, 88 children received food stamps for every 100 who were poor before receipt of means-tested benefits in 1995. By 1998, only an estimated 70 children received food stamp assistance for every 100 such poor children.

Trends in Disposable Income

The second part of this analysis examines recent trends in the overall incomes of single-mother families, particularly the poorest families. We count as part of total disposable income all major means-tested benefits other than health insurance — including AFDC/TANF, food stamps, housing, and Supplemental Security Income, as well as earnings, the EITC, and other sources of income. This analysis uses both administrative data and data from the Census Bureau's Current Population Survey (CPS). We examine a different cross-section of families in each year, rather than following the same families over several years.[1] We look at the four years from 1993 to 1997, a period of sustained economic growth and rising employment.

In conducting this analysis, we attempted to be as meticulous as possible in measuring changes in family incomes over time. We adjusted family income for family size so the families ranked lowest on the income scale were those that had the lowest incomes in relation to the poverty line. In addition, we added to the income reported by these families in the Census data a substantial amount of additional income to correct for problems that otherwise would be caused by the underreporting of cash assistance and food stamp income in the data. Appendix B of this report contains a more detailed discussion of the methodology.

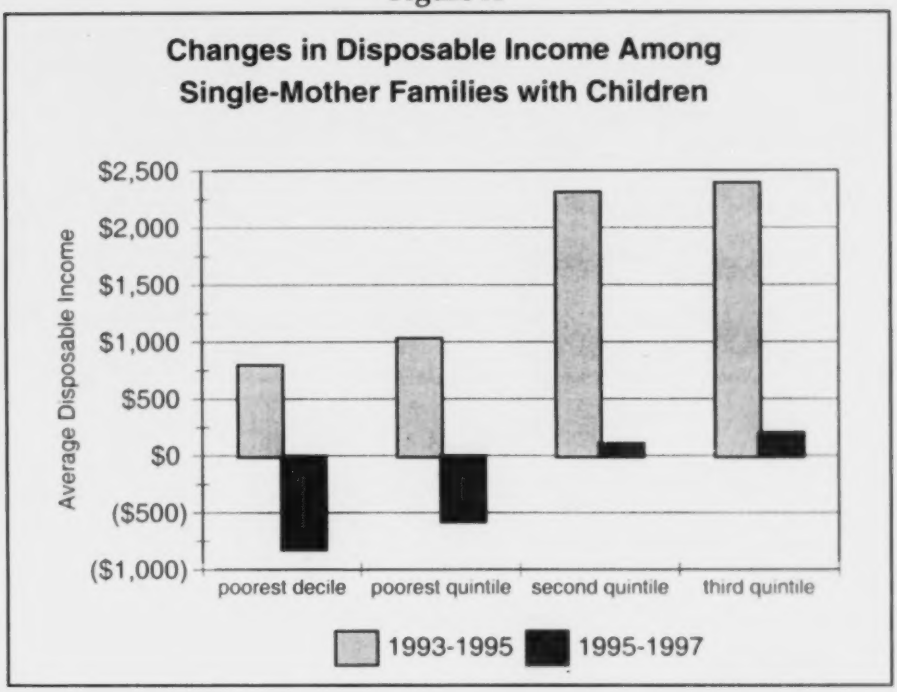
The key question examined is whether low-income single-mothers in families with children earned enough to offset the loss in income from means-tested programs. This analysis investigates how the average income of single-mother families changed between 1993 and 1995, a time when many states were implementing state welfare policy changes through waivers. It also examines changes in the economic status of such families between 1995 and 1997, the year prior to and the year following enactment of the federal welfare law. During the second period, state reforms began taking effect on a larger scale, and program participation fell sharply.

Our key findings include the following:

- Between 1993 and 1995, the average earnings and incomes of single-mother families rose substantially. Increases were particularly large among the bottom 60 percent of people in single-mother families, who experienced double-digit percentage gains in average disposable income. For the poorest 20 percent of individuals in single-mother families, disposable income

[1] The data used in this analysis, the Census Bureau's Current Population Survey, does not contain longitudinal data that follows the same families for several years. The CPS examines a representative cross-section of families each year.

Figure A



increased an average of 13.7 percent per family between 1993 and 1995, after adjusting for inflation, or a little over $1,000. (Each fifth of single-mother families consists of approximately two million families or six million people.) Earnings rose an average of $430 per family among these families, an increase of one-third. Income from means-tested benefit programs also increased. (All figures are adjusted for inflation, expressed in 1997 dollars, and rounded to the nearest ten dollars.)

- Between 1995 and 1997, by contrast, the poorest single-mother families experienced a significant *decline* in their average disposable incomes, largely due to sizeable decreases in assistance from means-tested programs. These families also experienced a drop in earnings. Among the poorest 20 percent of persons in single-mother families — a group with incomes below 75 percent of the poverty line — average disposable income fell $580 per family between 1995 and 1997, a decline of 6.7 percent. About $460 of this income loss — or about 80 percent of it — was due to declines in means-tested assistance.

- The next-to-the poorest fifth of single-mother families, which had incomes between 75 percent and 112 percent of the poverty line in 1997, experienced an average increase in earnings of $900 from 1995 to 1997 and an average

EITC increase of $400. Nevertheless, their overall disposable income failed to rise. Their gains in earnings and the EITC were offset by an average loss of $1,460 per family in means-tested benefits.[2] As a result, their average incomes remained unchanged despite strong economic growth. (There was a small change, but it was not statistically significant.)

Some reduction in means-tested aid would be expected when earnings rise. But it is unusual for the decline in average means-tested benefits in the next-to-poorest fifth of single-mother families to exceed the increase in their average earnings. This suggests that many of these families worked harder but did not advance economically because of large declines in means-tested benefits.

- Only the two million single-mother families with the highest incomes — that is, the top fifth of single-mother families — experienced income gains between 1995 and 1997.

Table A

Change in Income Amounts by Source for Single-Mother Families
(1997 dollars)

	Poorest Quintile		Second Quintile	
	1993-95	1995-97	1993-95	1995-97
Earnings	$435**	($182)**	$1,642**	$901**
EITC	$228**	$73**	$517**	$398**
Means-tested Income	$291	($458)**	($34)	($1,463)**
Other	$82	($10)	$189	$274
Disposable Income	**$1,036****	**($577)****	**$2,314****	**$110**

** statistically significant, α=.01

[2] These families also gained an average of $274 in other income. Their increase in average earnings of $901 plus an increase in the EITC of $398 and an increase in other income of $274, minus the reduction of $1,463 in means-tested benefits, meant these families had average incomes $110 higher in 1997 than in 1995. ($901+$398+$274-$1,463=$110). The $110 change is not statistically significant.

- For the poorest 10 percent of persons in single-mother families, average income declined $810, between 1995 and 1997, a reduction of 14.3 percent.[3] Slightly over three-fourths of this income decline, or $610, was due to a decrease in the average amount of means-tested assistance these families received. These families' average incomes equaled 35 percent of the poverty line in 1995 but only 30 percent of the poverty line in 1997.

Erosion of Means-tested Programs Affects Child Poverty

Certain parts of the safety net for poor children weakened significantly between 1995 and 1997 despite continued improvement in the economy. Between 1993 and 1995, the number of poor children fell 2.4 million. By contrast, between 1995 and 1997, this number decreased only 360,000, less than one-sixth as much. Part of the reason for the smaller decline in the more recent period is that unemployment fell less sharply between 1995 and 1997 than between 1993 and 1995. This factor, however, can explain only a portion of the slowdown in the reduction in child poverty. A major reason that child poverty declined so much less in the 1995-1997 period than between 1993 and 1995 is that between 1995 and 1997 the proportion of children that means-tested programs

Table B

Key Child Poverty Statistics

	Number of Poor Children When Non-cash Benefits and Taxes are Taken into Account[1]	Poverty Rate, Counting Non-Cash Benefits and Taxes[1]	Number of Children Removed from Poverty by Means-tested Benefits[2]	Percentage of Children Poor Before Means-tested Benefits Who are Lifted from Poverty by these Benefits[2]
1993	13,853,000	20.0%	2,811,000	16.8%
1995	11,443,000	16.2%	3,241,000	20.6%
1997	11,080,000	15.6%	2,379,000	16.0%

[1] This poverty measure counts as income the benefits from food stamps, school lunches, and low-income housing subsidies, as well as other cash income. It also counts the EITC as income and subtracts federal and state income and payroll taxes.

[2] This figure does not include the impact of federal taxes.

[3] This is statistically significant at the 90 percent confidence level. Several other statistical tests show this finding to be robust and not a product of data anomalies at the bottom of the income distribution.

lifted from poverty declined significantly. Census data show that if means-tested benefits had been as effective in reducing child poverty in 1997 as in 1995, some 700,000 fewer children would have been poor in 1997.[4]

This decline in the number of children lifted from poverty by means-tested programs was partially offset by an increase in the number of children lifted from poverty by the Earned Income Tax Credit. The EITC removed approximately 400,000 more children from poverty in 1997 than in 1995, as a result of EITC expansions enacted in 1993 that phased in through 1996. The poverty-reducing effects of these EITC expansions offset a little more than half of the poverty-increasing effects of the weakening of the means-tested benefits programs. (Had there not been a decline in the proportion of children removed from poverty by means-tested benefit programs between 1995 and 1997, the effectiveness of government safety net programs in reducing child poverty would have reached an all-time high in 1997.)

Another way to look at the impact of changes in government programs on child poverty is to examine changes in the depth and severity of poverty among children, as measured by the child "poverty gap." The child poverty gap, which many analysts consider the single best measure of child poverty, is the total amount by which the incomes of all poor children fall below the poverty line. As Table C shows, this measure of child poverty failed to improve between 1995 and 1997 despite the improvement in the economy. In both 1995 and 1997, the incomes of all poor children fell below the poverty line by a total of approximately $17 billion.

Table C

Child Poverty Gap Data		
	Poverty Gap Before Means-Tested Benefits *(in billions of 1997 dollars)*	**Poverty Gap After Means-Tested Benefits and Federal Taxes** *(in billions of 1997 dollars)*
1993	$43.0	$20.8
1995	$38.4	$16.6
1997	$35.4	$17.1

These data on the child poverty gap demonstrate that although the number of poor children decreased modestly between 1995 and 1997, children living in poverty were, on average, somewhat poorer in 1997 than in 1995. The deepening of poverty among the

[4] If means-tested benefit programs had lifted from poverty in 1997 the same percentage of children who would have been poor without these benefits as the programs lifted from poverty in 1995, some 700,000 more children would have been lifted above the poverty line in 1997.

children who remained poor offset the modest decline in the number of children below the poverty line, with the net result being no lessening of the depth and severity of child poverty despite strong economic growth.

These poverty gap data also highlight the pivotal role that the decline in means-tested programs has played. *Before* counting means-tested benefits, the poverty gap among children shrank substantially between 1995 and 1997, just as it had between 1993 and 1995. The drop in the child poverty gap, as measured before means-tested benefits are counted, primarily reflects the effect of the economy in reducing child poverty through increases in employment and earnings among parents.

But when the benefits of means-tested programs (and federal tax policy) are taken into account, the picture changes, and the child poverty gap is found to be as large in 1997 as in 1995. These data strongly support the conclusion that the sharp declines in the numbers of children receiving means-tested benefits between 1995 and 1997 are directly linked to the disappointingly modest reductions in these years in the number of poor children and the lack of progress in easing the overall depth and severity of child poverty.

TANF Declines Lead to Reductions in Food Stamp and Medicaid Participation

In recent years, participation in food stamps also has declined substantially while participation in Medicaid has failed to increase despite significant expansions in eligibility. Research evidence indicates that the decline in AFDC/TANF caseloads may be driving down participation in these other means-tested programs. In some cases, when families no longer receive cash assistance or are deterred from applying for cash aid, they may be unaware of, or not informed of, their continued eligibility for food stamps and Medicaid.

- Researchers at Mathematica Policy Research reported in 1998 that about half of the decline in food stamp participation between 1994 and the beginning of 1998 appears to be associated with the reduction in AFDC/TANF participation.

- The Congressional Budget Office similarly has found that the growth in the economy and the food stamp eligibility changes contained in the 1996 welfare law can account for only part of the reduction in food stamp participation and that the remaining decline may be linked to welfare reform.

- The Urban Institute recently released results from a comprehensive study of nearly 1,300 families that have left the welfare rolls. The study found only 31

percent of these families were receiving food stamps. Nearly two-thirds of the families leaving welfare that also ceased to receive food stamps had incomes low enough to continue to qualify for food stamps.

- In Medicaid, the number of children and parents enrolled in Medicaid declined in 1996 for the first time in almost a decade even as states continued to expand Medicaid eligibility for children. As with food stamps, this development cannot be explained solely by the strong economy.

- Most children whose families leave welfare cash assistance remain eligible for Medicaid. In many cases, the entire family retains eligibility. But a growing number of studies have found that families leaving (or not enrolling in) welfare are at high risk of losing (or failing to enroll in) Medicaid, despite the eligibility of the families — or, at a minimum, their children — for Medicaid coverage.

- The Urban Institute study found only about 47 percent of children in families that were no longer receiving cash assistance had Medicaid coverage. Only 34 percent of the adults in these families did.

Findings Should Be Considered Preliminary

The findings of this study are based primarily on data through 1997 from the Census Bureau's Current Population Survey. CPS income data for 1998 — and data for 1997 from another Census Bureau survey, the Survey of Income and Program Participation — are not yet available. When those data are released, they should be evaluated to see whether the troubling income trends among single-mother families between 1995 and 1997 are confirmed and extend into 1998.

The findings of this analysis also should be reconciled with data from state studies of families that have left public assistance rolls and with other national evaluations of welfare policy changes. The findings from this study are largely consistent with the state "leaver" studies conducted to date. Those studies have found that many families leaving welfare for work have below-poverty earnings, that many others have stopped receiving cash welfare assistance although they are not working, and that, in some states, the financial well-being of a significant proportion of children in these families has deteriorated. Some of the studies also indicate that large percentages of the families no longer receiving cash assistance also are no longer receiving food stamps even through many of these families remain eligible for food stamp assistance.

Methodology

To examine changes in the economic well-being of single-mother families by income level, we first arrayed all single-mother families from poorest to richest by their incomes, adjusted for family size. This is the methodology the Congressional Budget Office uses in its analyses of family incomes. In doing so, we employ a comprehensive measure of income that includes the cash value of food stamps, school lunches, and housing assistance as well as EITC benefits, and subtracts state and federal income and payroll taxes. This measure of income is similar to the measure that a distinguished National Academy of Sciences panel recommended in 1995 be used to measure poverty.

Using this methodology, we divided the population into groups of equal size (such as fifths or tenths of the population) and compared the average income of persons in a specific part of the distribution in a given year to the average income of persons in the same part of the income distribution in another year. For example, the average income of those in the poorest fifth of single-mother families in 1995 can be compared to the average income of those in the poorest fifth of single-mother families in 1997. Each fifth, or quintile, of individuals in single-mother families consists of about six million people. Each tenth, or decile, includes about three million people.

The data on family incomes come from the Census Bureau's Current Population Survey. This survey misses — or underreports — some means-tested benefits. Under-reporting occurs when the total amount of benefits from a means-tested benefit program, as reported in the CPS, is less than the total amount of benefits issued during the period in question, as shown by program data. Underreporting of means-tested benefits in the CPS is a well-known phenomenon, and as long as the degree of under-reporting remains unchanged from year to year, underreporting does not distort comparisons of data from different years. In recent years, however, the degree of underreporting of means-tested benefits in the CPS has increased. To ensure that the results of this analysis are not an artificial result of an increase in underreporting of these benefits, we adjusted both AFDC/TANF benefit receipt and food stamp benefit receipt to compensate for this decline in reporting. Appendix B explain these adjustments, as well as the methodology for the analysis as a whole.

Conclusions

Caution should be exercised before pronouncing welfare reform an unqualified success. This analysis suggests that the average disposable income of a significant percentage of the poorest single-mother families was lower in 1997 than in 1995. It also finds that income trends among single-mother families were much less favorable between 1995 and 1997 than between 1993 and 1995. Of particular concern, progress in reducing the depth and severity of child poverty, as reflected in the child poverty gap, halted between 1995 and 1997 despite continued improvement in the economy. The number of poor children declined only slightly during this period, and children who remained poor became poorer, on average. Among many low-income single-mother

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families with significant earnings gains, the gains were offset entirely by losses in means-tested benefits, leaving the families no better off economically. These surprising and unanticipated findings occurred during a period of strong economic growth and before any sizeable number of welfare recipients reached welfare time limits.

The results suggest that too much emphasis has been placed on caseload reduction and insufficient attention paid to income and poverty outcomes. In a strong economy with low unemployment rates and with the proportion of never-married mothers who are employed at an all-time high, the poorest fifth of single-mother families lost income, on average, between 1995 and 1997.

This study finds evidence that for some families, the gains in the income of unrelated men residing with these single-mother families equaled or exceeded the loss of income the single-mother families experienced, although this was true only for a small minority of these poor single-mother families. The large majority of these families do not have an unrelated male living with them. While some families may have chosen not to participate in means-tested benefit programs because they had access to the income of men who reside with the family, this does not appear to be a viable coping strategy for most poor single-mother families.

These findings raise an important question: why did economic gains among poor single-mother families occur between 1993 and 1995 but then cease? Why was the nation not able to achieve employment gains among single-mother families after 1995 without net income losses? Welfare reform should not be pronounced fully successful until the outcome among these poor families with children is one of consistent income gains rather than of income stagnation or losses.

I. Introduction

Dramatic declines in recent years in the population receiving cash welfare benefits and food stamps have contributed to the conventional wisdom that the new 1996 federal welfare law and state welfare reforms are working well. But caseload reduction alone is an inadequate measure of success. The criteria for assessing success also should include whether the well-being of children and families has been enhanced. That could occur in a number of ways: through increased labor force participation and earnings of custodial parents, increased child support collections received by custodial parents, and an increase in the number of children who reside with both parents.

Two major trends have influenced the economic well-being of the nation's poorest families with children in recent years. Strong economic growth, unusually low unemployment rates, continued expansion of the Earned Income Tax Credit (EITC), and welfare policy changes have contributed to an increase in employment among poor families. At the same time, changes in low-income programs have led to large decreases in the number of families receiving public assistance.

Data that begin to shed light on the combined effect of these divergent trends on the economic well-being of poor families with children are just becoming available on a national basis. This study examines changes in the incomes of single mothers and their children over the period from 1993 to 1995, and also over the period from 1995 to 1997. The study considers both changes in earnings and changes in safety net programs that provide income to single-mother families.

Chapter II examines declines in participation in the food stamp and AFDC/TANF programs in recent years. Chapter III presents a detailed analysis of the income of single-mother families and how it changed over these periods. Chapter IV examines

recent trends in child poverty, using alternative definitions of poverty. Citing other studies, Chapter V discusses some of the factors that have caused the declines in food stamp, Medicaid and AFDC/TANF caseloads and also whether TANF caseload declines have contributed to the participation decline in food stamps and the lack of increased enrollment in Medicaid despite expansions in Medicaid eligibility. Appendix A presents evidence that including the income of unrelated men who live with single-mother families does not fundamentally affect the findings of the analysis. Appendix B describes in detail the data and methodology utilized in the study.

II. Participation Has Declined Faster Than Poverty

From 1989 to 1993, a period that spanned the last recession, the number of individuals receiving means-tested benefits such as AFDC/TANF and food stamps substantially increased. After 1994, with the economy continuing to grow, participation in means-tested programs fell, gradually at first and then sharply.

Between 1993 and 1995, the number of people receiving AFDC and food stamps experienced a modest decline. The number of people of all ages receiving AFDC dropped 5.2 percent during this period; the number of children receiving this assistance fell 4.6 percent. Food stamp participation fell by 3.3 percent overall and 2.4 percent among children. These percentage declines were roughly consistent with the decline over the same period in the number of children living in poverty. Between 1993 and 1995, the number of poor children declined 5.8 percent.

One would expect these trends to be similar. As the poverty rate falls, fewer people are eligible for means-tested programs. One would expect a decrease in participation roughly parallel to the decline in eligibility.

Between 1995 and 1997, however, the decline in participation greatly accelerated and fell faster than any objective measure of need. While the economy continued to expand, participation in AFDC/TANF and food stamps fell much faster than the drop in the number of people who are poor.

Figure 1 shows the decline in the number of people who received food stamps between 1995 and 1997, compared to the decline in the number of people with incomes below the poverty line before receipt of means-tested government benefits. Food stamp participation fell 16.6 percent over this two-year period. In contrast, the number of

individuals who had income below the poverty line before receipt of means-tested government benefits declined 2.9 percent.[5]

The decline in the number of people receiving cash assistance shows a similar pattern. Figure 2 shows the decline in AFDC/TANF participation between 1995 and 1997, compared to the decline in the number of people in single-mother families that are poor before receipt of means-tested benefits. The number of people in single-mother families with incomes below the poverty line before receipt of means-tested benefits fell 5.4 percent during this period. The number receiving AFDC/TANF benefits declined 22.2 percent, more than four times as steep a decline.

Since 1997, TANF and food stamp receipt has fallen even more rapidly. The number of TANF recipients dropped an additional 20 percent between 1997 and 1998. The number of food stamp recipients declined another 12.2 percent.

Figure 2

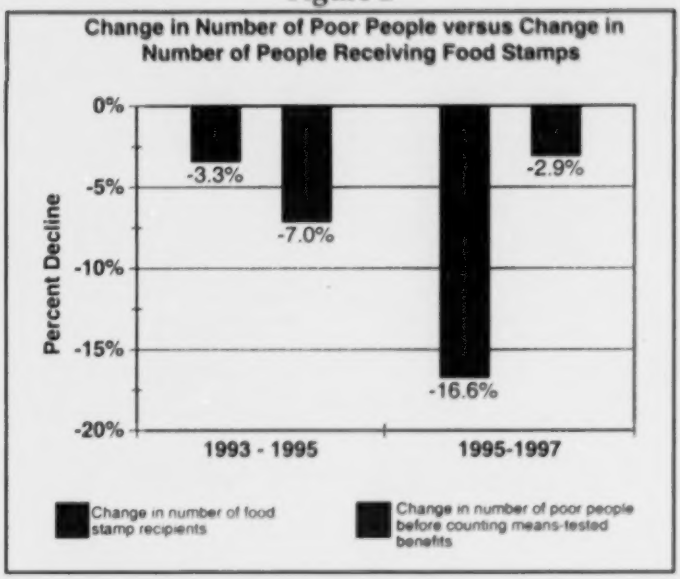
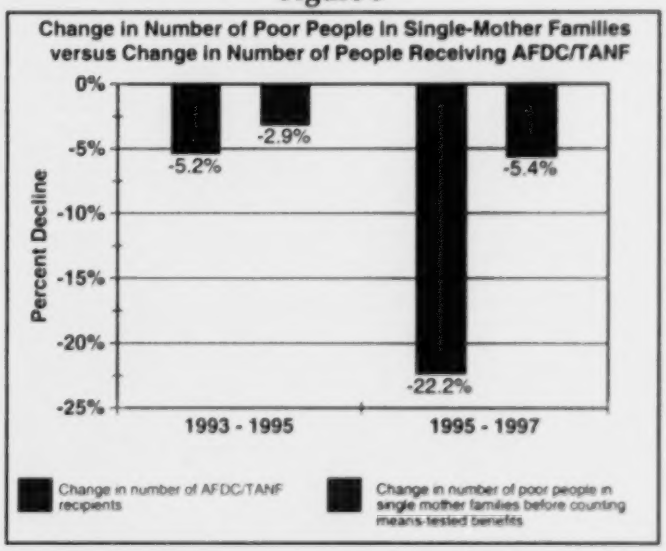


Figure 3



The disproportionate decline in participation by poor families in means-tested programs has significant consequences for children. Table 1 shows for years from 1993 to 1998, the number of

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[5] A similar pattern is found if one examines the change in food stamp participation between 1994, when food stamp participation peaked, and 1997. The number of poor people fell 6.5 percent between 1994 and 1997, while the number of people receiving food stamps in an average month fell 19.8 percent.

Table 1

Number of Child Program Participants as a Percentage of the Number of Children Who Were Poor Before the Receipt of Means-tested Benefits
(in thousands)

	Number of Poor Children Before Receipt of Means-tested Benefits[1]	Number of Child Food Stamp Recipients[2]	Ratio of Food Stamp Recipients to Number of Poor Children	Number of Child AFDC Recipients[2]	Ratio of AFDC Child Recipients to Number of Poor Children
1993	16,685	14,196	85.1%	9,439	56.6%
1994	16,324	14,391	88.2%	9,440	57.8%
1995	15,717	13,860	88.2%	9,009	57.3%
1996	15,426	13,189	85.5%	8,355	54.2%
1997	14,890	11,347	76.2%	7,161	48.1%
1998	*14,441*[3]	10,140	*70.2%*	5,803	*40.2%*
Change:					
1993 - 1995	-5.8%	-2.4%		-4.6%	
1995 - 1997	-5.2%	-18.1%		-20.5%	
1995 - 1998	*-8.1%*[3]	*-26.8%*		*-35.6%*	
1993 - 1998	*-13.4%*[3]	*-28.6%*		*-38.5%*	

Source: Poverty data from Current Population Survey, food stamp administrative data from Department of Agriculture, AFDC administrative data from Department of Health and Human Services.

[1] Annual number of poor children from Census data

[2] Average monthly number of children participating in food stamps and AFDC/TANF from administrative data

[3] Numbers in italics are estimated by assuming that the number of poor children before receipt of means-tested benefits declined in 1998 by the average annual decline between 1993 and 1997.

children whose family incomes were below the poverty line before receipt of means-tested benefits (figures for 1998 are estimated). The number of poor children is compared to the number of children receiving food stamps each year and the number receiving cash assistance benefits.

The third column of the table shows the ratio of the number of child food stamp participants to the number of poor children. The last column shows the ratio of the number of child welfare recipients to the number of poor children.

The table indicates that participation in means-tested benefit programs fell faster than need after 1995. In 1995, there were 88 children receiving food stamps for every

100 children who were poor before receipt of means-tested benefits. In 1998, only about 70 children received food stamps for every 100 such children in poverty. Similarly, in 1995, some 57 children received AFDC for every 100 children who were poor before receipt of means-tested benefits. In 1998, only about 40 children received TANF cash assistance for every 100 such poor children.

As these figures indicate, participation in these programs appears to have declined much more rapidly than can be explained by improvements in the economy. Substantially smaller proportions of poor children are participating in means-tested programs than was the case only a few years ago. In fact, the projection that only about 40 percent of poor children received cash assistance in 1998 will, if confirmed when the Census Bureau releases poverty data for 1998 this fall, mean that the proportion of poor children receiving such cash assistance in 1998 is substantially lower now than at any time since 1970.[6]

The General Accounting Office (GAO) recently reached a similar conclusion with regard to food stamps. In a report on the food stamp program issued July 2, 1999, the GAO stated:

> there is a growing gap between the number of children living in poverty -- an important indicator of children's need for food assistance -- and the number of children receiving food stamp assistance. In particular, during fiscal year 1997, the number of children living in poverty dropped by 350,000 (or 3 percent) while the number of children participating in the Food Stamp Program dropped by 1.3 million (or 10 percent). As a result, the percentage of children living in poverty who received food stamps declined . . .[7]

The next chapter uses data from the Current Population Survey to examine how the decline in participation in means-tested benefit programs has affected the economic well-being of single-mother families with children.

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[6] See Table A-5 in Appendix A of *Indicators of Welfare Dependence*, U. S. Department of Health and Human Services, Annual Report to Congress, October 1998.

[7] *Food Stamp Program: Various Factors Have Led to Declining Participation*, General Accounting Office (99-185), July 1999, p. 10.

III. How Have Single-mother Families Fared?

Any effort to evaluate the success of welfare reform must take into account not only the degree to which participation in welfare programs has fallen but also the degree to which the employment and economic well-being of families with children has improved. This analysis examines trends in the income of single-mother families over the past several years and looks more closely at trends in the major components of income, including earnings and means-tested benefits. The key question this chapter examines is whether earnings for single mothers increased sufficiently to offset the losses in income from means-tested programs.

Because low-income single-mother families constitute more than 90 percent of welfare families in which an adult is receiving assistance,[8] these families are the primary focus of this analysis. Persons in single-mother families are nearly five times as likely to live in poverty (measured before means-tested benefits are counted) as persons in married-couple and male-headed families with children. The poverty rate for single-mother families, before counting income from means-tested benefits, is nearly 50 percent. By comparison, the poverty rate for married-couple and male-headed families with children is usually around 10 percent.

In 1997, individuals in single-mother families accounted for 20 percent of all persons in families with children. But they constituted 55 percent of the individuals in families with children that are poor before means-tested benefits are counted.

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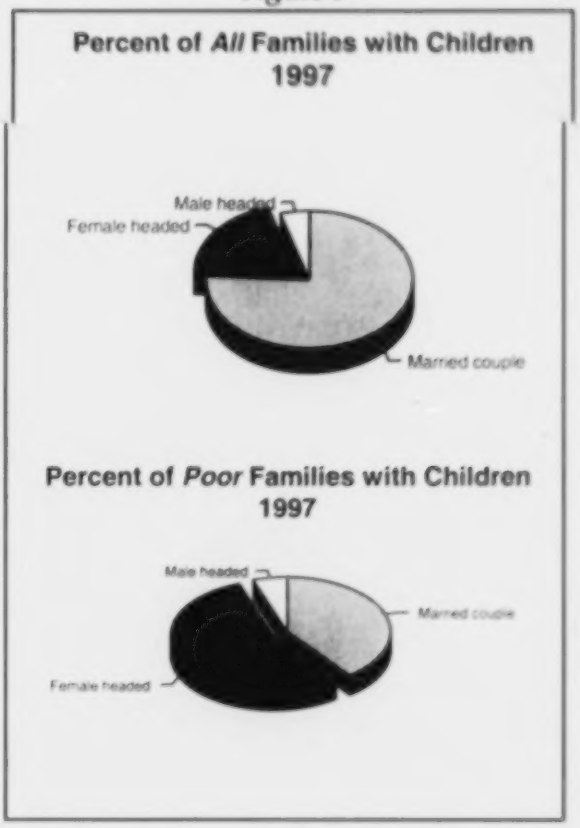
[8] U.S. Department of Heath and Human Services, Temporary Assistance for Needy Families (TANF) Program, Second Annual Report to Congress, Table 9:6, August, 1999.

For this analysis, we sorted the people living in single-mother families by income (adjusted for family size) from lowest to highest and divided them into fifths, or quintiles. Income was defined as disposable income, which includes not only cash income such as earnings, social insurance payments, and means-tested cash benefits, but also the cash value of food stamps, housing, and school lunch benefits, and the Earned Income Tax Credit. State and federal income and payroll taxes are deducted to produce the final disposable income figure. Average earnings represent the average for all persons in the quintile, including both those with earnings and those without earnings. (Appendix B provides a detailed description of the methodology.)

Figure 3



Both from 1993 to 1995 and from 1995 to 1997, the country experienced strong economic growth. Unemployment declined from 6.9 percent in 1993 to 5.6 percent in 1995 and 4.9 percent in 1997. The Gross Domestic Product, the basic measure of the size of the economy, grew 5.8 percent between 1993 and 1995, after adjusting for inflation, and an additional 7.5 percent between 1995 and 1997.[9] Nevertheless, the earlier period was much more favorable to individuals in low-income single-mother families.

Between 1993 and 1995, the average disposable family incomes of all persons living in single-mother families, except those in the highest-income quintile, rose substantially. For families in the second through fourth quintiles, these gains were driven by increases in average earnings. For families in the poorest quintile, the gains resulted from a combination of increases in earnings, the earned income tax credit, and means-tested benefits such as food stamps.

By contrast, the period between 1995 and 1997 did not see increases in average disposable income except for the highest quintile. For example, although families in the

[9] Council of Economic Advisers, *Economic Report of the President*, February 1999, Table B-4, 331.

Table 2

Average Earnings and Income of Single-Mother Families by Quintiles *(1997 dollars)*						
				Percent Change		
	1993	1995	1997	1993-1995	1995-1997	1993-1997
Average Earnings						
Poorest Quintile	$1,270	$1,705	$1,523	*34.3%***	*-10.7%***	*19.9%***
Second Quintile	$3,314	$4,956	$5,857	*49.6%***	*18.2%***	*76.7%***
Third Quintile	$10,044	$13,404	$13,299	*33.5%***	*-0.8%*	*32.4%***
Fourth Quintile	$20,724	$22,742	$23,687	*9.7%***	*4.2%***	*14.3%***
Fifth Quintile	$45,738	$47,218	$52,453	*3.2%*	*11.1%***	*14.7%***
Average Disposable Income						
Poorest Quintile	$7,588	$8,624	$8,047	*13.7%***	*-6.7%***	*6.0%***
Second Quintile	$13,433	$15,747	$15,857	*17.2%***	*0.7%*	*18.0%***
Third Quintile	$17,908	$20,301	$20,504	*13.4%***	*1.0%*	*14.5%***
Fourth Quintile	$25,712	$27,962	$27,470	*8.8%**	*-1.8%***	*6.8%***
Fifth Quintile	$47,638	$47,959	$51,963	*0.7%*	*8.3%***	*9.1%***

*statistically significant, α = .1 **statistically significant, α = .01
Averages in the tables are weighted by persons

second quintile secured significant earnings gains, this did not result in an increase in disposable family income, which remained unchanged due to offsetting losses in means-tested benefits. In the middle quintile, neither average earnings nor average disposable income changed by a statistically significant amount.

Most troubling are the outcomes for the poorest fifth of persons in single-mother families. The average disposable income of families in this group increased between 1993 and 1995 but declined during the 1995-1997 period.

Families in the second and third quintiles (families between 75 percent and 155 percent of the poverty line) experienced significant earnings and income gains over the four-year period as a whole, but all of those gains occurred between 1993 and 1995. The poorest quintile had a much smaller income gain over the four-year period — a gain of

just six percent — because a large portion of the income gains this group secured between 1993 and 1995 was erased by the income losses in the 1995-1997 period.

Income Changes in the Two Poorest Quintiles

Single-parent families in the poorest quintile fall far enough below the poverty line that most of them are eligible for means-tested cash assistance benefits. Most of those in the second quintile also are below the poverty line; families in the second quintile have incomes between about 75 percent and 112 percent of the poverty line. Families in this quintile generally qualify for food stamps and often for cash assistance as well. (Remember that these families are between 75 percent and 112 percent of the poverty line *after* cash assistance, food stamps, housing subsidies, and the EITC are counted as income. Without these benefits, their incomes are substantially lower.) In addition, some of these families may have significant earnings during part of the year and be eligible for cash assistance during other parts of the year when they have little or no earnings. Each quintile contains about two million families and six million individuals.

Between 1993 and 1995, individuals in the two poorest quintiles experienced sizeable growth in average disposable family income. But between 1995 and 1997, the average income of the second poorest quintile of persons in single-mother families stagnated, while the average income of those in the poorest quintile declined.

Among the six million people in single-mother families in the poorest quintile, average disposable family income fell seven percent, or $577, between 1995 and 1997, slipping from $8,624 a year to $8,047. Although the EITC benefits these families received increased (due to the EITC benefit expansion enacted in 1993 and phased in through 1996), the families' average earnings, cash assistance, and food stamp benefits all declined. Almost 80 percent of the decline in the annual income of these families between 1995 and 1997 resulted from losses of means-tested benefits.

In the second quintile, average earnings climbed 18 percent between 1995 and 1997, rising from $4,956 to $5,857. Losses of cash assistance and food stamps, however, offset all of the earnings increase (and the corresponding increase in the EITC), leaving average disposable income essentially unchanged. The average income of those in this quintile remained below the poverty line.

Studies by analysts at the Office of Management and Budget, the Department of Health and Human Services, the House Ways and Means Committee, and the Urban Institute also have found declines in the incomes of the poorest single-mother families. Findings from these studies are summarized in the box on page 14.

Table 3

Income Amounts by Source for Single-Mother Families in Two Poorest Quintiles *(1997 dollars)*					
	1993	**1995**	**1997**	**1993-1995**	**1995-1997**
Poorest Quintile					
Earnings	$1,270	$1,705	$1,523	*$435***	*($182)***
EITC	$171	$399	$472	*$228***	*$73***
Total means-tested income[1]	$4,868	$5,159	$4,701	*$291*	*($458)***
AFDC/TANF	$2,206	$2,149	$1,830	($57)	($319)***
Food stamps	$1,667	$1,867	$1,843	*$200 ***	*($24)*
Other[2]	$1,279	$1,361	$1,351	*$82*	*($10)*
Disposable income	$7,588	$8,624	$8,047	*$1,036 ***	*($577)***
Second Quintile					
Earnings	$3,314	$4,956	$5,857	*$1,642 ***	*$901 ***
EITC	$454	$971	$1,369	*$517 ***	*$398 ***
Total means-tested income[1]	$7,621	$7,587	$6,124	*($34)*	*($1,463)***
AFDC/TANF	$3,533	$3,248	$2,513	*($285)***	*($735)***
Food stamps	$2,301	$2,333	$1,803	*$32*	*($530)***
Other[2]	$2,044	$2,233	$2,507	*$189*	*$274*
Disposable income	$13,433	$15,747	$15,857	*$2,314 ***	*$110*

[1] Includes AFDC/TANF, food stamps, SSI, and housing assistance

[2] "Other" income includes Social Security, Veteran's benefits, Unemployment Insurance, some interest and dividend income and child support payments

*statistically significant, α=.1 **statistically significant, α=.01

Averages in table are weighted by persons

The remainder of this section examines the major components of income and how the composition of income among persons in the bottom two quintiles of single-mother families has changed since the early 1990's.

Earnings

One would generally expect that in a strong economy with declining unemployment rates, employment levels and average earnings would rise among all income groups. For the first few years of the current economic recovery, this is exactly what happened among all groups of single-mother families. In more recent years, however, continued economic growth has not had the expected impact on the earnings of the poorest single-mother families.

Between 1993 and 1995, average earnings increased significantly in the bottom two quintiles of persons in single-mother families. (See Table 3). Between 1995 and 1997, however, the pattern changed. During this period, average family earnings continued to grow for the second quintile but fell for the bottom quintile.

EITC

The EITC has been a fairly large and steady income support for poor single-mother families with a worker. Increases in average EITC benefits have been particularly large in recent years due to expansions enacted in both 1990 and 1993. The 1993 expansion was phased in through 1996.

Between 1993 and 1995, average family income from the EITC doubled for the bottom two quintiles of persons in single-mother families. The EITC continued to increase for these two income groups between 1995 and 1997, although the average amount of the increase was not as large as the increase during the previous period.

Total Income from Major Means-tested Programs

Means-tested assistance includes the benefits of major government programs such as food stamps, AFDC/TANF payments, SSI benefits, and housing subsidies. Between 1993 and 1995, total means-tested benefits received by persons in the two poorest quintiles remained statistically unchanged.

Here, too, the pattern changed between 1995 and 1997. The average amount of means-tested assistance declined significantly during this time for families in both of the poorest quintiles. The average amount of assistance fell more than $450, or about nine percent, for the poorest quintile and almost $1,500, or about 20 percent, for those in the second quintile.[10]

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[10] As Table 3 indicates, families in the second quintile (with incomes between about 75 percent and 112 percent of the poverty line) have higher average levels of means-tested benefits than families in the

(continued...)

Families in the second quintile appear to have lost benefits in part — but only in part — because significant earnings gains made them ineligible for some of the assistance they previously received. Among families in the bottom quintile, earnings gains cannot help explain declines in benefit receipt between 1995 and 1997, as average earnings among this group declined modestly during that period.

AFDC and TANF

One of the major components of means-tested assistance for single-parent families are payments from the AFDC program, which ended in 1996, and the TANF program, which succeeded it. Declines in benefits from these programs made up the largest component of the overall loss in income from means-tested benefits among single-mother families in the two poorest quintiles between 1995 and 1997.

Between 1993 and 1995, there was no statistically significant change in average AFDC benefits among the poorest quintile of persons in single-mother families. There was a relatively modest eight percent decline in AFDC benefits among the next-to-the-bottom quintile. By contrast, average benefits fell substantially among both quintiles between 1995 and 1997, the period in which large changes in state and federal welfare policy occurred.

From 1995 to 1997, average AFDC/TANF benefits fell 15 percent among persons in the bottom quintile of single-mother families, even though earnings declined among these families during this period of time. Among persons in the second quintile, AFDC/TANF benefits fell 23 percent; among this group, increases in earnings were only slightly greater than the decline in cash benefits.

Food Stamps

The number of families with children receiving food stamps has declined rapidly in recent years. The dimensions of the decline, which have substantially exceeded

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[10] (...continued)
bottom quintile (with incomes below 75 percent of the poverty line). At first glance, this may seem surprising, since means-tested benefits tend to decline as income rises. But many of these families have incomes far below 75 percent of the poverty line in the absence of these benefits and thus qualify for significant benefits. Moreover, one of the reasons these families are in the second quintile rather than the bottom quintile is because they receive somewhat more income, on average, from means-tested benefits (including SSI and housing assistance) than families in the bottom quintile do, despite significantly higher earnings. (The principal difference in income between the two quintiles, however, is the level of earnings, which was more than three times higher in 1997 among single-mother families in the second quintile than among those in the bottom quintile.)

Other Analyses Also Have Found Income Losses among the Poorest Single-Mother Families

The work of other analysts supports the conclusions of this study that the incomes of the poorest single-mother families fell between 1995 and 1997. A paper prepared earlier this year by Richard Bavier of the Office of Management and Budget concludes that the poorest quintile of single-mother families experienced an overall income decline of $554 between 1995 and 1997 after adjusting for inflation.* Bavier notes that for these families, declines in means-tested benefits more than offset gains in earnings.

Similarly, in testimony before the House Committee on Ways and Means, Howard Rolston, Director of the Office of Planning, Research, and Evaluation for the Administration for Children and Families at the Department of Health and Human Services, reported that "Income has increased for some families, but there is also some preliminary evidence that some families are experiencing losses."**

A paper issued in May 1999 by Representatives Nancy Johnson, Bill Archer, Clay Shaw, and Dennis Hastert noted that "there is some evidence that female-headed families at the very bottom of the income distribution have stagnant or even declining incomes." They pointed out that the "total income of the bottom 20 percent of female-headed families declined by about 2 percent" between 1993 and 1997 and that the decline "seems to be caused primarily by a decline in welfare income by families in the bottom half of the bottom 20 percent and to be concentrated in the 1995 to 1997 period." While registering some concerns about the data, they conclude that "it seems quite plausible that some female-headed families are experiencing stagnant or declining incomes." In addition, they comment that "caseload data from the food stamp program and the Medicaid program seem to indicate that many adults and children who meet the demographic, income, and resource standards for these benefits are not receiving them."***

Finally, an Urban Institute study of mothers who left TANF found that "about 20 percent are not working, do not have a spouse that is working, and are not relying on government benefits. In addition, from one-third to one-half of former recipients report serious economic struggles around providing food and almost 20 percent report problems paying rent. Former recipients are experiencing these struggles more than other low-income mothers despite other similarities."****

*Richard Bavier, "An Early Look at the Effects of Welfare Reform," unpublished paper, March 20, 1999. Like the analysis in this report, Bavier sorts families into quintiles based on their income after including means-tested benefits and accounting for federal taxes.

**Statement of Howard Rolston, before the Subcommittee on Human Resources of the House Committee on Ways and Means, May 27, 1999, page 5.

***Nancy L. Johnson, Bill Archer, E. Clay Shaw, Jr., and J. Dennis Hastert, "Welfare Reform Has Already Achieved Major Successes: a House Republican Assessment of the Effects of Welfare Reform," May 27, 1999, pages 31-33.

****Pamela Loprest, *Families Who Left Welfare: Who are They and How are They Doing?*, The Urban Institute, 1999.

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forecasts of the Congressional Budget Office and the Office of Management and Budget, have been surprising since most working poor families are eligible for food stamps and the welfare law ended food stamp eligibility for only one significant group of families with children, legal immigrant families. Although the number of children receiving cash assistance was expected to decline in the wake of welfare reform, it was expected that poor families with children would continue to rely on food stamps as a work support. From studies of recipients who have left the welfare rolls, it appears that average earnings are approximately $2,500 per quarter, a level at which families generally remain eligible for significant food stamp benefits.

For persons in the poorest quintile of single-mother families, average food stamp benefits increased between 1993 and 1995 even as average earnings increased. (This may have been due in part to food stamp benefit improvements enacted in 1993.) In the second quintile, food stamp benefits changed little while earnings increased significantly. But between 1995 and 1997, average food stamp benefits for the second quintile of single-mother families fell substantially. As noted above, the increase in average earnings among single-mother families in this income group offset the loss of AFDC/TANF benefits among these families. But with a large 23-percent drop in food stamp benefits as well — an average decline in those benefits of more than $500 — the total losses in means-tested benefits significantly exceeded these families' gains in earnings.

Income Changes in the Poorest Decile

The people in the poorest quintile, or fifth, of single-mother families can be divided into two equal groups by income. Each of these groups, or deciles, comprises one tenth of persons in all single-mother families. The poorest decile consists of single-mother families with incomes below approximately 55 percent of the poverty line. The second decile consists of those with incomes between about 55 percent and 75 percent of the poverty line.

In 1997, families in the second decile had $1,300 more in average earnings than families in the first decile and $3,900 more in means-tested assistance. A primary reason why families are in the second decile as opposed to the first decile is the level of means-tested assistance they receive.

The largest losses between 1995 and 1997 in total disposable income and in income from means-tested programs were experienced by those in the bottom decile. The total disposable income of single-mother families in the bottom decile fell by about $814 — or 14 percent — from $5,687 in 1995 to $4,873 in 1997. (See Table 4.) Those

Table 4

Income Amounts by Source for Single-Mother Families in Two Poorest Deciles
(1997 dollars)

	1993	1995	1997	1993-1995	1995-1997
Poorest Decile					
Earnings	$820	$973	$862	*$153***	*($111)**
EITC	$123	$250	$261	*$127***	*$11*
Total means-tested income[1]	$2,778	$3,369	$2,754	*$591***	*($615)***
AFDC/TANF	$1,191	$1,209	$1,112	$18	($97)**
Food stamps	$977	$1,364	$1,149	*$387***	*($215)***
Other[2]	$1,167	$1,095	$996	*($72)*	*($99)*
Disposable income	$4,888	$5,687	$4,873	*$799***	*($814)***
Second Decile					
Earnings	$1,722	$2,438	$2,193	*$716***	*($245)**
EITC	$220	$549	$685	*$329***	*$136***
Total means-tested income[1]	$6,971	$6,971	$6,679	*$0*	*($292)**
AFDC/TANF	$3,228	$3,104	$2,562	*($124)*	*($542)***
Food stamps	$2,360	$2,377	$2,547	*$17*	*$170***
Other[2]	$1,391	$1,626	$1,708	*$235*	*$82*
Disposable income	$10,304	$11,584	$11,265	*$1,280***	*($319)***

[1] Includes AFDC/TANF, food stamps, SSI, and housing assistance

[2] "Other" income includes Social Security, Veteran's benefits, Unemployment Insurance, some interest and dividend and child support payments

*statistically significant, α=.1 **statistically significant, α=.01

Averages in table are weighted by persons

in this decile had average incomes equal to 35 percent of the poverty line in 1995 but only 30 percent of the poverty line in 1997. The losses in average income among this group between 1995 and 1997 wiped out all of the increase in income the group secured from 1993 to 1995.

Families in the bottom decile experienced between 1995 and 1997 both a significant decline in average earnings and a large drop in income from means-tested programs. Means-tested benefits make up the majority of the disposable income for these very poor families. Between 1995 and 1997, the average income these families receive from means-tested benefits fell $615, or close to 20 percent. (About $200 of this loss in means-tested benefits consisted of reductions in the amount of Supplemental Security Income payments these families receive, which are not shown in Table 4. This could be the result of some children losing eligibility for SSI because the disability definition for children was tightened in the 1996 federal welfare law.) Means-tested benefits accounted for more than three-fourths of the total disposable income loss of families in the bottom decile.

In the second decile of single-mother families, a drop in AFDC/TANF benefits between 1995 and 1997 was offset by small increases in other forms of income, as overall income stagnated.[11]

Including the Income of Men Who Live with Single Mothers

Some have asked whether the declines in the incomes of single-mother families between 1995 and 1997 might be less serious than they appear because some single mothers might be residing with unrelated men with whom they share income and expenses. (This analysis already counts the income of all *related* individuals as part of the single-mother family's income.)

The question of whether to consider the income of unrelated men as part of a family's income does not have a clear answer, because it is uncertain to what extent such men share income or expenses with single-mother families. Unless the men are the fathers of children in the family, they have no legal obligation to do so. The Census data do not provide information on how many of these men are the fathers of the children or whether any income or expenses are shared.

To assess the extent to which this factor might mitigate the decline in income among poor single-mother families, we conducted additional analysis that added in the income of unrelated men who lived in the same residential unit as the single-mother

[11] Table 4 shows a statistically significant decline of $319 in disposable income for those in the second decile of single-mother families between 1995 and 1997. During this period, however, average family size for those in the second decile declined. As a result, the *adjusted* family income for these families did not fall significantly, and the economic well-being of these families was essentially unchanged over the period. The second decile is the only income group for which changes in average family size cause the change in average family disposable income (as reflected in this analysis) and the change in family income adjusted for changes in family size to differ from each other.

family. In this supplemental analysis, we counted *all* of the income of these men as if it were shared with the single-mother families. In fact, the mother may have access to some, all, or none of this income. Counting the income of these men as though it were fully available to the single mother and her children as the supplemental analysis does thus overstates the degree to which the income of such men may have eased the drop in income among these families.

The supplemental analysis, which is described in detail in Appendix A, finds that the changes in the economic circumstances of low-income single-mother families between 1995 and 1997 were not accompanied by any increase in the proportion of single mothers that live with unrelated men. Among the poorest fifth of single mothers, one in five lived in a household with an unrelated adult male in both 1995 and 1997. There was no significant change in this proportion between these years.

When we examine the incomes of the very poorest single-mother families — those in the bottom decile of such families — we find that the decline in average disposable income these families experienced between 1995 and 1997 is substantially smaller if all of the unrelated men's income is added to the family's income, but the income decline remains statistically significant. Among the bottom quintile of single-mother families, adding all of the income of these men reduces the average decline in family disposable income to the point that it is not statistically significant.

Closer examination shows that some of this effect occurs because adding the income of these men moves a small portion of the single-mother families that otherwise are in the bottom quintile into a higher quintile. That, in turn, causes a roughly equal number of families from a higher quintile to be reclassified into the bottom quintile, which has the effect of reducing the apparent income decline in the bottom quintile. To separate out this effect, we also examined the change in income of the single-mother families who remained in the bottom quintile both before and after adding all of the men's income. Among these families, the income decline was significant. For these families, adding in the men's income reduced but did not eliminate the income drop.

Still another part of the supplemental analysis considers the large majority of low-income single mothers who do *not* share living quarters with unrelated men. If one is to add all of the income of unrelated men and assume this income is fully shared with the single mothers, the question arises as to whether single-mother families that reside with an unrelated man should be removed from the analysis, since married-couple families are not included in it. When we examine the poorest quintile of persons in single-mother families that do not have unrelated men in the same residential unit — a group that includes the large bulk of low-income single-mother families — we find a significant income decline between 1995 and 1997.

Essentially, the supplemental analysis shows that adding in all of the income of these men has a substantial impact on the disposable income of a small fraction of low-income single-mother families. The great majority of these families have no unrelated men residing with them or live with a man whose income is very low. For these families, adding in the income of the unrelated men reduces the income decline between 1995 and 1997, but the decline remains statistically significant. In short, while the income of these men does appear to provide a significant boost to a small fraction of single mother families, adding all of the income of these men when measuring income changes — an approach that almost certainly overstates the role such income plays — does not materially change the picture for most poor single mother families of some income loss between 1995 and 1997 during a time of economic growth.

IV. Safety Net Lifts Fewer Children From Poverty

The safety net of government benefit programs has long played an important role in reducing the number of people who are poor and the depth of their poverty. The role of the safety net programs has been particularly important for children.[12] In recent years, however, means-tested government programs have become less effective in reducing the extent and depth of poverty among children.

Table 5 presents child poverty data from 1993 to 1997 using an expanded definition of poverty that counts near-cash benefits such as food stamps, school lunches, housing subsidies and federal tax policy, including the earned income tax credit. As the table shows, the number of poor children declined throughout this period. But the rate of decline slowed markedly during the 1995-1997 period. The number of children in poverty declined by 2.4 million between 1993 and 1995 but by only 360,000 between 1995 and 1997.

The last column of the table presents data on the child poverty gap. The child poverty gap is the total amount by which the incomes of all poor children fall below the poverty line. In many ways, it is a better measure of the scope and severity of poverty than the poverty rate, which measures only how many people fall below the poverty line and not how poor they are. Examining changes in the poverty gap illuminates the extent to which families with incomes below the poverty line become less poor or sink deeper into poverty.

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[12] Kathryn Porter, Wendell Primus, Lynette Rawlings, and Esther Rosenbaum, *Strengths of the Safety Net: How the EITC, Social Security, and Other Government Programs Affect Poverty*, Center on Budget and Policy Priorities, March 1998.

Table 5

Measures of Child Poverty[1]			
	Number of Poor Children	**Poverty Rate** *(percent)*	**Poverty Gap**[2] *(billions of 1997 dollars)*
1993	13,853,000	20.0%	$20.0
1994	12,613,000	18.0%	$18.1
1995	11,443,000	16.2%	$16.6
1996	11,341,000	16.1%	$16.5
1997	11,080,000	15.6%	$17.1
Change:			
1993-95	-2,410,000	-3.8%	($3.5)
1995-97	-363,000	-0.6%	$0.5

[1] These data are not adjusted for the underreporting of means-tested benefits.

[2] The portion of a family's poverty gap considered to be part of the child poverty gap is set equal to the percentage that children make up of the total number of people in the family.

The child poverty gap contracted substantially from 1993 to 1995, narrowing by $3.5 billion, but failed to contract any further between 1995 and 1997. This lack of improvement in the child poverty gap measure between 1995 and 1997 is a surprising and disturbing finding, given that the economy continued to expand. It provides additional evidence that the sharp declines in the number of families participating in the food stamp and TANF programs have adversely affected the economic well-being of some children.

Table 6 shows the impact of the safety net of means-tested benefit programs on child poverty. The first column of the table shows the number of children whose family incomes were below the poverty line before means-tested benefits are counted. The second column shows the number of such children who were lifted from poverty by the means-tested programs.

Means-tested programs — which include AFDC, SSI, food stamps, school lunches, and housing assistance, but not the EITC — lifted an increasing number of children out of poverty between 1993 and 1995. As the fourth column in Table 6 shows, in 1993, some 16.8 percent of children who were poor before receipt of means-tested benefits were lifted from poverty by these programs. By 1995, the proportion of such children that the means-tested programs lifted from poverty had climbed to 20.6 percent.

Table 6

Child Poverty and the Safety Net[1]				
	Number of Children who were Poor before Receipt of Means-tested Benefits	Number of Children Removed from Poverty by Means-tested Benefits[2]	Percentage of Children Poor before Receipt of Means-tested Benefits who were Removed from Poverty by such Benefits[2]	Number of Children Removed from Poverty by Means-tested Benefits and Federal Tax Policy
1993	16,685,000	2,811,000	16.8%	2,832,000
1994	16,324,000	3,112,000	19.1%	3,711,000
1995	15,717,000	3,241,000	20.6%	4,274,000
1996	15,426,000	2,850,000	18.5%	4,085,000
1997	14,890,000	2,379,000	16.0%	3,810,000

[1] These data are not adjusted for the underreporting of means-tested benefits.

[2] Not including the EITC or other federal tax policies

Between 1995 and 1997, however, this trend reversed, and means-tested programs became less effective in lifting children from poverty. After 1995, the percentage of children lifted from poverty by means-tested programs fell as participation in these programs declined.

- In 1995, means-tested programs removed 3.2 million children from poverty.
- In 1997, these programs removed 2.4 million children from poverty, 862,000 fewer than in 1995.
- After adjusting for the decline in the number of children who were poor before receipt of means-tested benefits, the means-tested programs are found to have removed 700,000 fewer children from poverty in 1997 than in 1995.

If one includes the earned income tax credit, and federal and state income and payroll taxes, the picture improves. In 1995, the net effect of these taxes was to reduce the number of poor children by one million. (This reflects the effect of the earned

Table 7

Child Poverty Gap *(in billions of 1997 dollars)*[1]				
	Before Means-tested Benefits	**After Means-tested Benefits**	**Reduction in Poverty Gap Due to Means-tested Benefits**[1]	**After Federal Taxes**
1993	$43.0	$20.6	-52.2%	$20.0
1994	$41.0	$19.6	-52.4%	$18.1
1995	$38.4	$18.4	-52.1%	$16.6
1996	$37.3	$18.8	-49.7%	$16.5
1997	$35.4	$19.4	-45.1%	$17.1
Change 93-95				
Dollar	($4.6)	($2.2)		($3.5)
Percent	-11%	-11%		-17%
Change 95-97				
Dollar	($3.0)	$1.0		$0.5
Percent	-8%	6%		3%

[1] These data are not adjusted for the underreporting of means-tested benefits.

[2] Not including the EITC or federal tax policies

income tax credit in lifting families with children out of poverty, offset to some extent by the payroll tax, which reduces disposable family income.) Between 1995 and 1997, as a result of continued expansion of the EITC, the number of children that federal tax policy lifted out of poverty increased by 400,000, to 1.4 million.

Table 7 further illuminates these trends, examining changes between 1993 and 1997 in the child poverty gap. The child poverty gap as measured *before* means-tested benefits are counted contracted by 11 percent, or $4.6 billion, between 1993 and 1995. The child poverty gap before means-tested benefits are counted fell another eight percent, or $3.0 billion, between 1995 and 1997. This drop in the child poverty gap before means-tested benefits are counted primarily reflects the improving economy.

When the benefits of means-tested programs and federal tax policy are included, however, the picture changes. In the 1993-1995 period, counting means-tested benefits and federal taxes enlarges the decline in the child poverty gap. The gap declined 17

percent in those years, after inclusion of means-tested benefits and federal taxes. But between 1995 and 1997, the decline in the poverty gap is reversed when means-tested benefits are included. An eight percent decline in the child poverty gap before means-tested benefits are counted turns into an increase in the gap after means-tested benefits are taken into account.

Taking into account federal taxes, principally the earned income tax credit, reduces but does not entirely eliminate this increase in the child poverty gap between 1995 and 1997. These data seem to indicate that the sharp declines in the numbers of children receiving means-tested government benefits between 1995 and 1997 led to an overall increase in the depth and severity of poverty among children in these years.

The statistics in this chapter have not been adjusted for the increase in the underreporting of means-tested benefits in the Current Population Survey between 1993 and 1997. The methodology to adjust for underreporting is not adaptable to poverty rate statistics. While we know that underreporting increased, we do not know how the underreported TANF and food stamp benefits are distributed among low-income families. In adjusting for increased underreporting when determining changes in family income between 1993 and 1997, this study assumes conservatively that a large share of the underreported benefits should be attributed to families well below the poverty line even though the research literature suggests it is the least-poor families that underreport the most. (See Appendix B.) Adjusting for the additional underreporting of TANF and food stamp benefits that occurred between 1995 and 1997 raises the average amount of disposable family income near the poverty threshold by approximately $200 annually. This small adjustment would make little difference in the number of poor children or the child poverty rate since few families are within $200 of the poverty line.

The impact on the poverty gap statistics would be more significant. Table 7 indicates that the child poverty gap, measured after accounting for receipt of means-tested benefits and federal taxes, widened by three percent, or $0.5 billion, between 1995 and 1997. Taking into consideration the increase in underreporting in this period, the best estimate is that the child poverty gap remained essentially unchanged over these years.[13]

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[13] Between 1995 and 1997, the underreporting of food stamps and cash assistance benefits increased by $1.5 billion. The majority of this $1.5 billion would *not* reduce the child poverty gap, for three reasons. First, some of the underreported food stamp benefits were received by households without children. Second, some of the underreported benefits (primarily food stamp benefits) went to families with incomes that were above the poverty line after federal taxes and means-tested benefits (except for the underreported benefits) are taken into account. Third, some of the underreported benefits went to parents or other adults in families with children, rather than to children.

V. Why are Caseloads Declining?

The declines in the number of people participating in AFDC/TANF and food stamps have been well documented. The precise factors that have led to the declines, however, are not yet well-understood. This chapter summarizes the growing body of literature that seeks to ascertain why caseloads have fallen so rapidly in recent years.

The literature indicates that the economy played a much larger role in causing caseload declines between 1993 and 1995 than since 1995. Welfare policy changes played a relatively minor role in inducing caseload declines in the 1993-1995 period but a more prominent role in explaining caseload declines after 1995.

In general, caseload declines primarily caused by the economy should not affect family income adversely. As the economy improves and jobs are created, some adults have earnings increases that make them ineligible for TANF or food stamps because they have taken a job or their wages or hours of work have increased. Typically, the increase in earnings from such jobs will more than offset any losses from means-tested benefits. By contrast, caseload declines that are more welfare-policy driven may be more problematic in their effect on family income. The findings from the emerging research literature that caseload declines in the 1993-1995 period were more heavily driven by the economy, while declines after 1995 resulted largely from welfare policy changes are consistent with the findings of this analysis that the average incomes of poor single-mother families increased from 1993 to 1995 but fell between 1995 and 1997.

Historically, the number of people who participate in food stamps, and to a lesser extent in AFDC, has fluctuated with the business cycle. Periods of high unemployment have typically corresponded to increased participation in food stamps and AFDC. Periods of low unemployment and strong economic growth have corresponded to reduced participation in these programs.

Over the past few years, however, economic trends have not correlated as strongly with program participation, and economic factors have proven to be inadequate predictors of caseload dynamics.[14] A number of recent studies have attempted to identify the determinants of the recent declines in caseloads by examining the impact not only of the economy, but also of such factors as welfare reform efforts, specific state policies, and demographic changes.

The research to date indicates that all of these factors have played some role. The most recent study is a report the Council of Economic Advisers issued on August 3, 1999,[15] which updates an earlier CEA study. The new study finds that the causes of caseload decline from 1996 to 1998 differed somewhat from the causes between 1994 and 1996.

- The study found that roughly 35 percent to 36 percent of the caseload decline in cash assistance between 1996 and 1998 was due to changes in the cash assistance program, while only 8 percent to 10 percent was due to the improved labor market. About 10 percent to 16 percent was due to the higher minimum wage. Another 1 percent to 5 percent was due to lower cash welfare benefits. The remaining 35 percent to 45 percent was attributable to other factors.

- By contrast, the study reported, between 1993 and 1996, roughly 26 percent to 36 percent of the caseload decline was due to the improved labor market. (The study noted that the larger effect of improved labor market conditions in the earlier period reflects the fact that the decline in unemployment between 1996 and 1998 was much smaller than the decline between 1993 to 1996.) The study found another 12 percent to 15 percent of the decline in welfare participation between 1993 and 1996 was due to welfare waivers, under which states experimented with alternative program designs. In addition, the caseload fell an estimated 6 percent to 22 percent because of lower inflation-adjusted welfare benefits. The remaining change was due to other factors. (The study also estimated that the decline in the real value of the minimum wage between 1993 and 1996 would have caused the caseload to *increase* about 10 percent.)

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[14] See, for example, Chris Hamilton, "What Makes Caseloads Grow or Shrink in the Food Stamp Program?," Testimony prepared for the Senate Committee on Agriculture, Nutrition, and Forestry, April 23, 1998.

[15] Council of Economic Advisers, *The Effects of Welfare Policy and the Economic Expansion on Welfare Caseloads: An Update*, August 3, 1999.

A recent study by researchers Geoffrey Wallace and Rebecca Blank similarly found that just under half of the AFDC decrease and almost all of the food stamp caseload decrease between 1994 and 1996 would be explained by changes in unemployment, but economic factors appear to explain a much smaller share of the caseload declines that have occurred since 1996.[16]

Still another study, by James Ziliak and David Figlio, estimated that 78 percent of the change between 1993 and 1996 in the 26 states with the largest welfare caseload reductions was due to economic and seasonal factors.[17] Robert Moffitt of Johns Hopkins University also found the economy to have had a substantial impact on caseloads between 1993 and 1996.[18]

The research indicates that other factors besides the economy, changes in welfare policies, and changes in the minimum wage, have contributed to welfare caseload declines. In particular, the expansion of the EITC appears to have played a role in caseload reduction by increasing the proportion of single mothers participating in the labor force. A study by Northwestern University economists Bruce Meyer and Dan Rosenbaum found that the EITC was responsible for more than half of the increase in employment among single mothers between 1984 and 1996.[19]

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[16] Geoffrey Wallace and Rebecca Blank, "What Goes Up Must Come Down? Explaining Recent Changes in Public Assistance Caseloads," paper presented at the conference "Welfare Reform and the Macroeconomy," sponsored by the Joint Center for Poverty Research, February 1999.

Estimates by Robert Rector and Sarah Youssef attribute most of the caseload decline to work requirements and stringent sanction policies. Robert Rector and Sarah Youssef, "The Determinants of Welfare Caseload Decline," Heritage Foundation, May 1999. Rector and Youssef conclude that states with the most rigorous sanction policies have experienced the greatest caseload reductions in recent years, although some questions have been raised about the methodology used in their estimates. See also "The Determinants of Welfare Caseload Decline: A Brief Rejoinder," Center on Budget and Policy Priorities, June 1999.

[17] James P. Ziliak and David N. Figlio, "Welfare Reform, the Business Cycle, and the Decline in AFDC Caseloads," unpublished paper, University of Oregon at Eugene, 1998.

[18] Robert A. Moffit, "The Effect of Pre-PRWORA Waivers on AFDC Caseloads and Female Earnings, Income, and Labor Force Behavior," paper presented at the ASSA meetings, New York, January 1999, revised May 1999. Moffitt's analysis also found that state welfare reform waivers had a significant impact on AFDC participation among very low-skilled women but no significant impact on their earnings or wages. State welfare reform efforts were found to have had an impact on participation among higher-skilled women as well (those with 12 or more years of education). That group did experience significant increases in both workforce attachment and earnings.

[19] Bruce D. Meyer and Dan T. Rosenbaum, *Welfare, the Earned Income Tax Credit, and the Labor Supply of Single Mothers*, Northwestern University/University of Chicago, Joint Center for Poverty Research,

(continued...)

Those findings are consistent with studies by Nada Eissa of the University of California and Jeffrey Liebman of Harvard University and by Stacy Dickert, Scott Hauser, and John Karl Scholz of the University of Wisconsin.[20,21] Eissa and Liebman found that the EITC expansion contained in the Tax Reform Act of 1986 had a significant effect in inducing more single women with children to go to work. Dickert, Hauser and Scholz projected that the EITC expansions in the 1993 budget law would induce a sizable number of non-working single parents to seek employment and, in so doing, generate a reduction in welfare receipt. The Dickert, Hauser, Scholz study, published in a book edited by MIT economist James Poterba, estimated that the 1993 EITC expansions would induce approximately 500,000 families to move from cash welfare assistance to the workforce.

Food Stamp Participation Declines

Prior to welfare reform, almost all families on AFDC also received Medicaid, and nearly 90 percent also received food stamps. Most families leaving welfare remain eligible for other means-tested programs.

In recent years, participation in food stamps has declined substantially while participation in Medicaid among families with children has failed to increase despite expansions in eligibility. Research evidence indicates that the decline in AFDC/TANF caseloads may be driving down participation in these programs. In some cases, when families no longer receive cash assistance or are deterred from applying for cash aid, they may be unaware of, or not informed of, their continued eligibility for food stamps and Medicaid.

Researchers at Mathematica Policy Research reported in 1998 that about half of the decline in food stamp participation between 1994 and the beginning of 1998 was associated with the reduction in AFDC/TANF participation.[22] At a Senate Agriculture Committee hearing in April 1998, researchers from Mathematica and Abt Associates

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[19] (...continued)
October 26, 1998.

[20] Nada Eissa and Jeffrey B. Liebman, "Labor Supply Response to the Earned Income Tax Credit," *Quarterly Journal of Economics*, May 1996, 112(2), pp. 605-637.

[21] Stacy Dickert, Scott Hauser, and John Karl Scholz, "The Earned Income Tax Credit and Transfer Programs: A Study of Labor Market and Program Participation," in James M. Poterba, ed., *Tax Policy and the Economy, Vol. 9.*, MIT Press, 1995.

[22] Harold Beebout, "Fluctuation in Food Stamp Program Participation," Testimony prepared for the Senate Committee on Agriculture, Nutrition, and Forestry, April 23, 1998.

testified that the combined effect of improvements in the economy and the welfare law's restrictions on food stamp eligibility fell well short of explaining the large food stamp participation declines.

Mathematica researchers estimated that provisions of the welfare law that restricted food stamp eligibility "will be found to account for no more than 10 percent of the decline in FSP participation since 1994," and that "previously developed models of the relationship between the economy and FSP participation indicate that economic trends since 1994 could account for anywhere from 28 to 45 percent of the decline in participation."

Since Mathematica prepared this testimony, food stamp participation has declined an additional 11 percent, while the unemployment rate has declined only four-tenths of a percentage point (and food stamp eligibility has *expanded* modestly with the restoration of benefits to some legal immigrants). It is likely that a still-smaller share of the overall decline in food stamp participation can now be explained by the economy and the welfare law's restrictions on food stamp eligibility.

The Congressional Budget Office has reached a similar conclusion. In its January 1998 *Economic and Budget Outlook* report, CBO found that the food stamp eligibility changes in the 1996 welfare law "would have accounted for less than one-fifth" of the reduction in average monthly food stamp participation that occurred in fiscal year 1997. The remaining decline "cannot be [fully] explained by the 0.5 percentage point decrease in the unemployment rate. An alternative explanation is that the welfare reform debate of 1995 and 1996 and the enactment of welfare reform heightened the stigma effect of receiving welfare payments, and as a result, fewer people from among the eligible population elected to receive benefits."[23]

Findings from an evaluation by Abt Associates of a welfare demonstration program in Indiana also indicate that the recent reforms of welfare cash assistance programs are likely to have led to lower food stamp receipt. The evaluation found that many of the families that stopped receiving cash assistance also stopped receiving food stamps, and that "most of the families that stopped receiving food stamps were still potentially eligible for benefits...." Such patterns indicate that welfare reform reduces food stamp participation without a corresponding reduction in the number of potentially eligible families.[24]

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[23] Congressional Budget Office, *The Economy and Budget Outlook: Fiscal Years 1999-2008*, January 1998, p. 74.

[24] Chris Hamilton, "What Makes Caseloads Grow or Shrink in the Food Stamp Program?," Testimony prepared for the Senate Committee on Agriculture, Nutrition, and Forestry, April 23, 1998, pp. 6-8.

Similarly, studies of people leaving the cash assistance rolls in several other states have found that many families whose earnings now exceed eligibility levels for welfare continue to have incomes well below the poverty line and to qualify for food stamps but are not receiving food stamp benefits. Moreover, a recent Urban Institute study of nearly 1,300 families who had left cash assistance rolls found only 31 percent of these families receiving food stamps.[25]

Yet Urban Institute researchers have reported that about 65 percent of the former welfare recipients who stopped receiving food stamps had sufficiently low incomes that they still qualified for food stamps.[26] A fairly typical family reflected in various studies of people leaving the cash assistance rolls might earn $6.50 per hour working 34 hours in an average week. Such a family could qualify for about $149 per month in food stamps.

Effects on Medicaid Participation

There is evidence that the drop in cash assistance caseloads has contributed to a decline in Medicaid participation and an accompanying increase in the number of uninsured families with children. In 1996, the number of children and parents enrolled in Medicaid declined for the first time in almost a decade even as states continued to expand Medicaid eligibility for children. As with food stamps, much of the decline cannot be explained by the strong economy.

Prior to enactment of the welfare law, eligibility for Medicaid for families with children (as distinguished from eligibility just for children) was tied to eligibility for cash welfare assistance. Low-income families generally were eligible for Medicaid only if they also could qualify for welfare or had recently left the welfare rolls. That now has changed. The federal welfare law "delinked" Medicaid and welfare eligibility so families with children no longer need to be enrolled in cash assistance to be eligible for Medicaid. A family's eligibility for Medicaid depends now only on whether it can meet a state's Medicaid income and asset tests (and, in some states, family composition requirements), not on whether it is receiving welfare. (The 1996 federal welfare law also retained "transitional" Medicaid assistance, which provides coverage for a period of time to families that otherwise would become ineligible for regular Medicaid coverage because their earnings have lifted them above their state's Medicaid income limit for family coverage.)

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[25] Pamela Loprest, *Families Who Left Welfare: Who Are They and How Are They Doing?* The Urban Institute, 1999.

[26] Sheila B. Zedlewski, "Declines in Food Stamp and Welfare Participation: Is There a Connection?," Testimony prepared for the House Committee on Agriculture, August 5, 1999, p. 3.

States already were required to extend Medicaid eligibility to young low-income children regardless of whether the children are on welfare. Moreover, most states have expanded Medicaid eligibility for children well beyond the federal minimum eligibility requirements. In addition, the new federal funding provided to states through the child health block grant (CHIP) has accelerated expansions of coverage for children under Medicaid, as well as through separate state child health programs.

Federal law requires all states to extend Medicaid eligibility to children under age six with incomes up to 133 percent of the poverty line (now $18,460 for a family of three) and to children aged six through 15 with incomes up to 100 percent of the poverty line. Some 45 states cover most or all poor children aged 16 through 18 as well. Furthermore, the majority of states extend Medicaid eligibility to children at significantly higher income levels than these minimum federal standards; a substantial number of states cover children of all ages with incomes up to at least 185 percent of the poverty line ($25,678 for a family of three).

As a result, most children in families leaving welfare remain eligible for Medicaid. The available data on the income levels of families that are employed when they leave welfare indicate that these families generally do not earn enough to cause their children to lose Medicaid eligibility.

Even though the children in low-income families — and, in many cases, their parents — are eligible for Medicaid regardless of their TANF status, however, the drop in TANF caseloads appears to have affected Medicaid participation adversely among eligible families and children.

- A study by researchers Leighton Ku of the Urban Institute and Marilyn Ellwood of Mathematica Policy Research found that the number of parents and children on Medicaid declined for the first time in nearly a decade between 1995 and 1996. They conclude that "falling welfare caseloads are leading to unexpected declines in Medicaid enrollment" and suggest that adults will lose Medicaid coverage in the future as welfare caseloads continue to fall.[27]

- More recent data gathered by the Center directly from states indicate that Medicaid caseloads have continued to decline since 1996 in a number of states, despite continued expansions of Medicaid eligibility for children. For example, between 1996 and 1999, the number of children enrolled in

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[27] Leighton Ku and Marilyn Ellwood, "Welfare and Immigration Reforms: Unintended Side Effects for Medicaid," *Health Affairs*, May/June 1998.

Medicaid in Florida declined by 83,000 (14 percent), the number of children on Medicaid in Texas declined by 217,000 (17 percent), and the number in New York dropped by 200,000 (15 percent).

Moreover, a number of analyses that evaluate the Medicaid and health insurance status of families who have left welfare have concluded that these families are at high risk of losing Medicaid.

- A review of studies that considered the health insurance status of families that have left welfare found that at least one-third of children and most adults lose their Medicaid coverage after leaving welfare. At the same time, many of those who are no longer receiving Medicaid do not have employer-based coverage; the studies typically show that among families that are employed after leaving welfare, the share reporting employment-based coverage is 25 percent or less.[28]

- Similarly, a recent analysis the Urban Institute published of Medicaid enrollment patterns in California and Florida during 1995 found that half of the children leaving cash assistance in both states lost Medicaid. The same pattern held for adults in California, while in Florida, two-thirds of the adults who left AFDC lost Medicaid coverage.[29] During the period evaluated by the study, both states used waivers to alter their welfare programs and experienced declines in their cash assistance caseloads.

- The Urban Institute study described earlier of 1,300 families that left cash assistance rolls found only 34 percent of former adult welfare recipients — and 47 percent of children in families formerly on welfare — reported Medicaid coverage. The study also found that these former recipients had relatively little access to coverage through their employers. As a result, more than 40 percent of former adult recipients were uninsured, as were a quarter of the children who had left welfare.

- Finally, a study conducted for Families USA by Lewin Associates found that changes in welfare policy between 1995 and 1997 caused 1.25 million people to lose Medicaid. More than half of these 1.25 million people were uninsured in 1997. According to the study, those losing coverage include

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[28] See Mark Greenberg, Center for Law and Social Policy, *Participation in Welfare and Medicaid Enrollment*, Kaiser Commission on the Future of Medicaid, September 1998.

[29] Marilyn R. Ellwood and Kimball Lewis, "On and Off Medicaid Enrollment: Patterns for California and Florida in 1995," Urban Institute, Occasional Paper Number 27, July 1999.

many people who were eligible for Medicaid but did not apply because they were deterred by state policies designed to deflect people from applying for cash assistance. The group losing coverage also includes *people who* inappropriately lost Medicaid coverage when they were terminated from TANF, as well as people who were spurred by welfare policy changes to enter the low-wage job market, causing them to become ineligible for Medicaid after they used up a limited period of transitional coverage.[30]

Concern over the mounting evidence of the adverse effects of steep TANF caseload declines on Medicaid enrollment has prompted several states to investigate their procedures for assuring that families applying for or leaving welfare are properly evaluated for Medicaid eligibility and, if eligible, enrolled in Medicaid. For example, reviews by state agencies in Maryland, North Carolina, and Pennsylvania have found that substantial numbers of families have been inappropriately terminated from Medicaid when they left cash assistance. These states have agreed to reinstate Medicaid health insurance for these children and families.

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[30] Families USA, *Losing Health Insurance: The Unintended Consequences of Welfare Reform*, May 1999. The study estimated the impact of the welfare law after controlling for several factors, including changes in the economy and demographic changes. As noted in the methodology section of the study, some of the efforts made to control for the effect of economic changes on Medicaid enrollment may have led the study to understate the extent to which welfare policy changes caused families to enter the job market whereupon they became ineligible for coverage (see p. 32).

VI. Conclusions

Among other results, this study finds that the average disposable income of the poorest fifth of single-mother families was lower in 1997 than two years earlier. Although income trends among poor single-mother families were very positive from 1993 to 1995, these trends reversed in the 1995–1997 period. The study also finds that substantial reductions in means-tested benefits from 1995 to 1997 — reductions much deeper than can be explained by economic growth — help to explain the divergent income trends between the two periods.

In addition, the study finds that the depth and severity of child poverty, as measured by the child poverty gap, was as great in 1997 as in 1995 despite two years of robust economic growth. This finding is surprising for a period of strong growth that came before any sizeable number of welfare recipients reached welfare time limits. Here, too, the data reveal that this unsettling development stemmed from the steep declines in means-tested benefit receipt and the resulting deterioration in the role of means-tested benefits in reducing child poverty.

These findings lead to several broad conclusions. First, they suggest considerable caution ought to be exercised before pronouncing welfare reform an unqualified success. Evidence about the effects of the changes in the welfare system is just beginning to be compiled and analyzed. These findings suggest it is both premature and simplistic to describe the consequences of the welfare changes only in rosy terms.

A second conclusion is that it is essential to ascertain what is happening to different groups of families and individuals that leave welfare. Data indicate that not

all groups are faring equally well. Studies are needed that assess the status of families that have left welfare.

A number of states are conducting such studies. But while these state surveys collect information on the employment and earnings levels of families that have left the welfare rolls, the surveys generally do not collect sufficient data to provide a comprehensive picture of overall changes in the disposable incomes of these families. Most such studies thus do not allow a thorough assessment of how these families' ability to meet basic needs may have changed since the families stopped receiving cash assistance.

In addition, the information available from these state studies often applies to changes in employment and earnings only for the entire population of families examined. As a result, important variations in how different groups of families may be faring can go unrecognized. For example, few studies conduct separate analysis of families leaving welfare as a result of sanctions. In addition, only a few state "leaver" studies ask whether families that have left welfare are experiencing difficulty meeting basic needs such as food or shelter, a matter of particular importance insofar as families without earnings are concerned. These gaps in the current state data make it more difficult to ascertain the effects of welfare system changes and determine what further reforms or mid-course corrections might be useful.

Moreover, studies that focus solely on families leaving welfare cannot, by themselves, provide a thorough understanding of the impact of welfare reform for another reason — they cannot capture the impact that welfare changes have had on families that never receive welfare because the families are discouraged from applying or otherwise diverted. States should attempt, where possible, to broaden their studies to include families deterred or discouraged from applying.[31]

To assess fully the impact of welfare reform on the well-being of families with children in a state entails conducting population-based surveys that collect data on the earnings, labor force participation, and poverty status of families. The Census Bureau's Current Population Survey provides such data on a national basis, but such data are not currently available on a state-by-state basis. The federal government should allocate the resources necessary to conduct such state-level surveys, at least in the large states.

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[31] There are several ways states could survey families discouraged from receiving welfare, although doing so is likely to be more challenging than surveying families that have been on welfare and subsequently have left. For example, a state could collect the names and addresses of families that make contact with the welfare office and then survey a sample of families that did not submit an application. A state also could conduct a random telephone survey or send workers to low-income neighborhoods to identify poor families with children that have not applied for welfare assistance.

A third conclusion is that states and the federal government should place more attention on program participation and on the effects that welfare system changes appear to be having on food stamp and Medicaid enrollment and efforts to reduce the numbers of uninsured children. Evidence is mounting that reductions in TANF caseloads and changes in administrative procedures have led to unintentional or unwarranted declines in food stamp and Medicaid assistance among families eligible for these benefits. Efforts need to be made to improve the performance of the food stamp program in serving eligible working poor families. Similarly, efforts are needed to reach children and parents, primarily in low-income working families, who are eligible for health insurance under Medicaid or a state child health insurance program. In addition, a provision of the welfare law affords states the opportunity to broaden Medicaid eligibility so many more low-income working parents may qualify. Some states have moved to adopt this option; more should do so.

A related conclusion is that since caseload reduction and advances in economic well-being do not always go hand in hand, state and national policies should provide economic supports for those who have left welfare for work but earn low wages and remain poor. Such support can include income supports (including federal and state earned income tax credits), wage subsidies, job training, transportation, child care assistance, incentives to pay child support, and health insurance coverage for employed parents. Such supports reflect the reality that many poor parents who leave welfare (or never enroll in welfare in the first place) obtain jobs that pay low wages and offer few benefits. Studies of families that have left welfare show many employed former recipients lack such basic benefits as paid sick leave and health insurance.

States also should continue working with families that are at risk of losing or have lost cash assistance due to noncompliance with a program requirement; states should seek to ensure that such families understand the requirements and attempt to bring these families into compliance where possible. Innovative programs that several states operate, such as Tennessee and Connecticut, suggest it is possible to bring significant percentages of such families into compliance with work and other requirements, helping the families both to pursue avenues that may lead to self-sufficiency and to avoid the loss of basic benefits that may be important to the well-being of their children. (See box on page 40.)

Both the states and the federal government are in a position to pursue such courses. States have considerable flexibility under recently issued federal TANF regulations to provide various forms of assistance to working families, as well as to design their own TANF eligibility criteria. Many states also have substantial amounts of unspent TANF funds. These funds can be used to provide more adequate support for families that have gone to work but remain poor and also to provide more intensive assistance to help families with serious barriers to employment surmount those barriers.

State Efforts to Assist Families Subject to Sanctions

- In Tennessee, all cases scheduled for closure due to non-compliance are reviewed by an outside entity prior to case closure. As part of the review, the outside entity (which operates under a contract with the state) checks to make sure the parent has been properly notified, understands the requirements, and is given an opportunity to comply. When Tennessee instituted this system, sanctions were averted in 30 percent of the cases scheduled to be sanctioned and subject to these reviews. In most cases that were slated for closure due to noncompliance but were not closed as a result of the review, the parents came into compliance.

- Connecticut allows sanctioned families that have lost cash welfare benefits to participate in a "safety net" program that provides assessments, case management services, and vouchers. This program has achieved notable success in securing compliance and raising employment rates among families that have been sanctioned, many of which had significant barriers to employment. While 12 percent of the families are employed at the time of referral to the program, 37 percent of families are employed while participating in the program.

Other studies also underscore the advisability of continuing to work with sanctioned families to achieve compliance rather than simply cutting off both benefits and contacts with these families. These families often face substantial barriers to employment that may take repeated, lengthy efforts to surmount.

- A Utah study found that three-fourths of sanctioned families had three or more barriers to employment, most commonly a health or medical problem, lack of transportation and lack of skills. For more than half the families, a health-related problem - including a mental health problem - was a reason for nonparticipation.

- A Minnesota study found a significant percentage of sanctioned families had one or more barriers to employment. The study found sanctioned families were four times as likely as the caseload as a whole to report chemical dependency, three times as likely to report a family health problem, and twice as likely to report a mental health problem or domestic violence.

- A recent Delaware study found sanction rates to be higher for those with the least work experience and the least education. The study also found sanctioned individuals were more likely to have trouble understanding TANF rules and the consequences of not participating.

The federal government, too, can think creatively about how to approach the issue of economic well-being. For example, the formula used under the welfare law to award "high performance" bonuses to states can be reexamined. The federal government could allocate a portion of these funds to reward states that are most successful in serving low-income working families in Medicaid and food stamps and in reducing child poverty. The bonuses currently are awarded solely on state performance in

increasing work effort among TANF recipients, an important goal but one that could be supplemented.

The federal welfare law has provided more flexibility — and for the present, more funding — to states. Many families have benefitted from these changes. Employment has increased. There has been a greater emphasis on work, and the flexibility the law grants has enabled states to expand earnings disregards, liberalize overly restrictive assets limits, and provide supplemental cash assistance to larger numbers of families that secure low-wage employment. Some states also have been able to boost funding for child care, treat two-parent families more equitably, assist more non-custodial parents, and experiment with some innovative measures to assist families with the most severe employment barriers. Nevertheless, with the evidence of unspent TANF funds, states can — and should — take additional steps to assist poor families. The evidence in this report indicates that between 1995 and 1997, many families did not benefit from welfare reform or experienced a decline in economic well-being.

Moreover, one important aspect of the federal welfare law that may result in income losses among significant numbers of families — lifetime time limits — has not yet taken effect. In most states, families will not begin to reach the five-year federal time limit until 2001 or later. An additional cautionary note is that the law has been in effect for only a short period of time, during which the economy has been strong and most states have run budget surpluses. A test of the law's impact during an economic downturn remains in the future.

Welfare reform is still being implemented. A final judgment on its effects should not be rendered until several years after time limits are in full effect and until we have seen how the incomes of poor families are affected through all phases of the economic cycle, including recession. In the interim, these findings provide a preliminary — and troubling — picture of some of the impacts of welfare reform on the incomes of poor single-mother families with children.

Appendix A:
Does Including the Income of Men Who Live with Single Mothers Make a Difference?

As Chapter III shows, the economic circumstances of the poorest single-mother families deteriorated between 1995 and 1997, in spite of the overall improvement in the economy. Some have asked whether this decline in economic well-being might be less serious than it appears, since some of the single mothers reside with other unrelated adults, such as unrelated adult men, who might be able to provide additional income. To determine the extent to which this factor might mitigate the drop in the income of single-mother families, we conducted additional analysis that included the income of unrelated men. (The analysis in this report already includes all income received by *related* household members as part of the income of the single-mother family. Following standard Census practice, any adult in the household who is related to the single mother is counted as a member of the single-mother family.)

In this additional analysis we assumed that any unrelated male living in the same residential unit as a single mother and her children fully shared his income with the single mother and her children. The data in the Census survey do not provide any information on income sharing within the household, nor do they provide any information about the nature of the relationship between single mothers and unrelated men living in the same unit. The only information in the Census data on the relationship between adults in a household is whether the adults are married or blood relatives. If they are neither, the survey simply records them as unrelated.

The assumption that all the income of unrelated men is shared with the single-mother family gives us a sense of the *maximum* amount of such income that may be available to these families. Unless the unrelated man living in the household is the father of the children, he has no legal obligation to share his income with the single mother and her children. The mother and children may have access to some, all, or none of his income. Counting only the single mother's income when an unrelated man resides in the household probably understates to some degree the income available to her and her children. On the other hand, counting the income of the man as though it were fully available to the single mother and her children, as the analysis presented in this chapter does, likely overstates the income available to the family.

We also cannot tell from the data how long the single mothers in the survey resided with these men. It is not clear from the data whether the income these men received was acquired during the period they resided with the single mothers. This uncertainty occurs because the Census data do not track changes in household composition over time.

The Current Population Survey, the source of the data used in this analysis, defines families and households based on their living arrangements at the time the survey is conducted in March. The data on income that the survey collects reflect the income that individual household members received during the *previous* calendar year, a time when they may not have been living in the same household. For example, if an adult male moved in with a single-mother family in January 1998, they would be shown as residing together in the March 1998 survey. The data that show the total income of all members of the household would show the combined incomes of the adult male and the single mother for 1997 as the income of the household even though they did not live together in 1997. Similarly, if a man lived with a family throughout 1997 but moved out before March 1998, he would not be counted as a member of that household in the March survey, and his income would not be included as part of the household's income for 1997.

In spite of these concerns, it is useful to examine how the income of single-mothers and their children may be affected by the inclusion of the income of the unrelated men who reside with them. Doing so allows us to examine the extent to which counting the income of these men as fully available to the single-mother families makes a difference in the income trends discussed in Chapter III of this report.[32]

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[32] We also conducted some analysis to examine the effect of adding the incomes of all unrelated members of the residential unit, including those who were not adult males, to the income of single-mother families. Relatively few single-mother families live in households with unrelated individuals who are not adult males, such as roommates or boarders. In these situations, it is even less clear how

(continued...)

Proportion of Single Mothers Living with Unrelated Men

Some have suggested that single mothers leaving welfare often move in with men with whom they have current or former relationships. There is no evidence from the Census data, however, that the incidence of cohabitation increased between 1995 and 1997. As Table A-1 shows, the incidence of situations in which an unrelated male and a single-mother families reside together remained essentially the same between 1995 and 1997. In both years, approximately 13 percent of single mothers resided with men to whom they were not married or otherwise related.

Table A-1

Proportion of Single-Mother Families that Include an Unrelated Male

	1995		1997	
	No. of Families with an Unrelated Male *(thousands)*	% of Families that have an Unrelated Male	No. of Families with an Unrelated Male *(thousands)*	% of Families that have an Unrelated Male
Poorest Decile	221	24.5%	228	25.8%
Second Decile	106	13.4%	112	13.4%
Poorest Quintile	327	19.3%	340	19.8%
Second Quintile	186	11.0%	231	13.6%
Third Quintile	252	13.5%	238	12.6%
Fourth Quintile	262	13.5%	245	12.3%
Highest Quintile	199	9.7%	179	9.0%
Total	1,226	13.3%	1,233	13.3%

Note: In this table, percentages are the percent of families in the decile or quintile that live with an unrelated male.

Among single mothers in the poorest decile in 1995, one in four lived in a household with an adult male to whom they were not related. Among single mothers in the next poorest decile, fewer than one out of seven lived with an unrelated man. In the poorest quintile as a whole, almost one in five lived with an unrelated man.

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[32] (...continued)
much of the income of the unrelated individual is shared with the single mother and her children. Adding the income of other unrelated individuals in the unit to the income of single-mother families yields very similar results to the results that this chapter reports.

Overall, the change in the economic circumstances of single-mother families between 1995 and 1997 was not accompanied by any noticeable increase in the proportion of single mothers residing with men to whom they were not related. In 1997, the proportion of single mothers in the poorest decile who resided with an unrelated man remained at about one in four, while the proportion of single mothers in the next poorest decile remained under one in seven.

Looking at these data another way, three of every four single-mother families in the bottom decile, and more than six of every seven in the next decile (and in the second quintile as well), do not live with an unrelated man and thus cannot be said to have access to this source of income.

Including the Income of Men Living with Single-Mother Families

If we examine the incomes of the poorest single-mother families (i.e., those in the bottom decile), the decline in average disposable income they experienced between 1995 and 1997 is reduced substantially by including the incomes of men who resided with them, but the decline remains statistically significant.[33] Table A-2 displays the change in the average disposable incomes of the poorest two deciles and the poorest two quintiles of single-mother families between 1995 and 1997. The first line of each panel of the table shows the average disposable income that single-mother families receive, not counting the income of unrelated adults in their household. The second line shows the average disposable income of the single-mother families plus the average income of unrelated men living in those households.

Like the analysis in the previous chapter, this table shows that the average disposable incomes of the poorest single-mother families fell significantly between 1995 and 1997. The table also shows that adding the incomes of unrelated men living with the single-mother families reduces this decline. For single-mother families in the poorest decile, average disposable incomes fell $814, or 14.3 percent, between 1995 and 1997. (All income data are adjusted for inflation.) If we add the income of unrelated men, the drop in average disposable incomes of the poorest 10 percent of families is $271, or 4.0 percent. Adding the incomes of these men substantially reduces the drop in income between 1995 and 1997, but a statistically significant decline remains.

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[33] When including the income of unrelated men, we used the same methodology employed in the rest of the report, which is described in Appendix B. After the income of the unrelated man is added to the income of the single-mother families, all the single-mother families are sorted by adjusted family income (with the additional household member taken into account) and arrayed from poorest to richest. All year-to-year comparisons for a given decile or quintile use a consistent definition of income and household composition.

Table A-2

Average Disposable Income of Single-Mother Families Before and After Adding Income of Unrelated Men				
	1995	1997	Change from 1995 to 1997	Percent Change 1995 to 1997
Poorest Decile				
Single-Mother Families only	$5,687	$4,873	($814)**	-14.3%**
Single-Mother Families plus Unrelated Men	$6,861	$6,590	($271)*	-4.0%*
Second Decile				
Single-Mother Families only	$11,584	$11,265	($319)**	-2.8%**
Single-Mother Families plus Unrelated Men	$12,696	$12,814	$118	0.9%
Poorest Quintile				
Single-Mother Families only	$8,624	$8,047	($577)**	-6.7%**
Single-Mother Families plus Unrelated Men	$9,786	$9,685	($101)	-1.0%
Second Quintile				
Single-Mother Family only	$15,747	$15,857	$110	0.7%
Single-Mother Families plus Unrelated Men	$16,763	$16,971	$208 *	1.2%*
* Statistically significant a = .10		** Statistically significant a = .01		

In the second-poorest decile, the average disposable income of single-mother families decreased $319 between 1995 and 1997, or 2.8 percent. If the income of the unrelated men is added, the change in income among those in the second decile is not statistically significant.

In the poorest quintile, the effect of adding the income of the men is to reduce the income decline between 1995 and 1997 from $577 to $101, also a statistically insignificant difference. For the second quintile, there is no statistically significant change in the

average disposable income of single-mother families between 1995 and 1997 either before or after the income of unrelated men is counted.

As noted earlier, counting all of the incomes of these unrelated men as part of the incomes of single-mother families overstates the families' incomes and too heavily discounts the income declines among poor single-mother families between 1995 and 1997. It is unlikely that all, as distinguished from some, of the income of these men is available to these families.

In addition to increasing somewhat the disposable incomes of single-mother families, counting the income of these men also changes to some degree which families fall into each decile and quintile. Adding the income of the men raises the incomes of

Table A-3

Distribution of Single-Mother Families that Include Unrelated Males

	Before Unrelated Male Income is Added		After Unrelated Male Income is Added	
	No. of Families with an Unrelated Male	% of All Families with an Unrelated Male	No. of Families with an Unrelated Males	% of All Families with an Unrelated Male
1995				
Poorest Decile	221	18.0%	58	4.8%
Second Decile	106	8.6%	28	2.3%
Poorest Quintile	327	26.6%	86	7.2%
Second Quintile	186	15.2%	147	12.3%
Third Quintile	252	20.6%	181	15.1%
Fourth Quintile	262	21.4%	301	25.1%
Highest Quintile	199	16.2%	483	40.3%
1997				
Poorest Decile	228	18.5%	45	3.7%
Second Decile	112	9.1%	55	4.6%
Poorest Quintile	340	27.6%	100	8.3%
Second Quintile	231	18.7%	152	12.6%
Third Quintile	238	19.3%	203	16.8%
Fourth Quintile	245	20.0%	306	25.4%
Highest Quintile	179	14.5%	444	36.8%

Note: In this table, percentages are the percent of all families living with an unrelated male that fall into the specified decile or quintile.

some families enough that they move into a higher income group. Since the size of each decile or quintile has to remain the same, the families moving out of the bottom decile or quintile are replaced by families from the bottom of the next higher decile or quintile.

Table A-3 shows where single-mother families that reside with unrelated men fall in the income distribution both before and after the men's income is counted. In 1995, before adding the men's income, single-mother families that live with such men are about equally distributed among the five quintiles, with slightly more in the lowest quintile than in other quintiles. After adding the men's income, fewer than 10 percent of such single-mother families fall into the poorest quintile of single-mother families, while about two-fifths of single-mother families that reside with unrelated men are in the highest-income quintile. The same pattern is apparent in 1997.

Components of Income Change

While some single-mother families move up in the income distribution when the income of unrelated men living with the family is added to the family's income, the vast majority of single-mother families in the poorest decile and the poorest quintile remain in those groups. For the single-mother families that remain in the poorest decile and the poorest quintile, including the average income of unrelated men has only a small effect on the drop in their average disposable income between 1995 and 1997.

Before adding the income of these men, the average disposable income of the single-mother families that remain in the poorest decile dropped $596 between 1995 and 1997. This decline was due primarily to a $395 decline in benefits from means-tested programs. The average income of unrelated men residing with these families was only about $200, and consequently could make little contribution to the overall income of these single-mother families. Furthermore, the average income of the men living with the single-mother families remaining in the lowest decile did not change significantly between 1995 and 1997 and did not make up for the sharp decline in income from means-tested programs over this period. The income of these families fell by $596 if the income of these men is not counted and by $571 if this income is counted.

For about one-sixth of the families in the poorest decile, unrelated men residing with the family had sufficient income to move the families out of the poorest decile when the men's income is added to family income. Among the families moving out of the decile, average disposable income before adding the income of these men decreased substantially between 1995 and 1997, falling $1,571. The drop in income from means-tested programs during this period for these families was especially large, at $1,378. An increase of $2,726 in the income of men living with these families was sufficient, however, to more than offset the decline in other income between these two years.

Table A-4

Number and Key Characteristics of Families Moving Into and Out of Poorest Decile as a Result of Adding Income from Unrelated Men			
	1995	1997	Change in Income 1995 to 1997
Families in Poorest Decile Both Before and After Including Income of Unrelated Men			
Number of Individuals *(thousands)*	2,568	2,427	
Average Disposable Income *(excluding income of unrelated men)*	$5,796	$5,200	($596)
Average Income from Means-tested Programs *(excluding income of unrelated men)*	$3,488	$3,093	($395)
Average Income of Unrelated Men*	$176	$201	$25
Families who Moved Into a Higher Decile after Including Income of Unrelated Men			
Number of Individuals *(thousands)*	455	541	
Average Disposable Income*(excluding income of unrelated men)*	$5,073	$3,502	($1,571)
Average Income from Means-tested Programs *(excluding income of unrelated men)*	$2,700	$1,322	($1,378)
Average Income of Unrelated Men*	$18,518	$21,244	$2,726
Families Falling into Poorest Decile After Including Income of Unrelated Men			
Number of Individuals *(thousands)*	485	628	
Average Disposable Income *(excluding income of unrelated men)*	$11,418	$10,921	($497)
Average Income from Means-tested Programs *(excluding income of unrelated men)*	$6,855	$7,322	$467
Average Income of Unrelated Men*	$74	$22	($52)

*The average income of unrelated men is an average of income from unrelated men for all families, including families that have no income from unrelated men. Including families that have no such income substantially decreases the figure for the average income of unrelated men.

Table A-5

Number and Key Characteristics of Families Moving Into and Out of Poorest Quintile as a Result of Adding Income from Unrelated Men			
	1995	1997	Change In Income 1995 to 1997
Families in Poorest Quintile Both Before and After Including Income of Unrelated Men			
Number of Individuals *(thousands)*	5,344	5,251	
Average Disposable Income *(excluding income of unrelated men)*	$8,800	$8,382	($418)
Average Income from Means-tested Programs *(excluding income of unrelated men)*	$5,261	$5,091	($169)
Average Income of Unrelated Men*	$162	$361	$199
Families who Moved Into a Higher Quintile after Including Income of Unrelated Men			
Number of Individuals *(thousands)*	688	643	
Average Disposable Income *(excluding income of unrelated men)*	$7,184	$5,405	($1,776)
Average Income from Means-tested Programs *(excluding income of unrelated men)*	$4,250	$1,755	($2,495)
Average Income of Unrelated Men*	$17,436	$22,047	$4,612
Families Falling into Poorest Quintile After Including Income of Unrelated Men			
Number of Individuals *(thousands)*	822	818	
Average Disposable Income *(excluding income of unrelated men)*	$14,947	$15,004	$57
Average Income from Means-tested Programs *(excluding income of unrelated men)*	$9,176	$9,111	($65)
Average Income of Unrelated Men*	$29	($7)	($36)

*The average income of unrelated men is an average of income from unrelated men for all families, including families that have no income from unrelated men. Including families that have no such income substantially decreases the figure for the average income of unrelated men.

In short, for families that remain in the poorest decile after the incomes of unrelated men are included in family income, average income declined significantly between 1995 and 1997, fueled primarily by a large drop in income from means-tested programs. The income of men living with these families did very little to mitigate the overall income decline. A small number of very poor single-mother families had substantially higher incomes as a result of adding the unrelated males' income, which tended to move these families out of the bottom decile.

Among single-mother families in the poorest *quintile*, the pattern is similar. (See Table A-5). For these families, average disposable income dropped significantly between 1995 and 1997. For families that remained in the bottom quintile after the income of unrelated men is added, counting the income of these men reduced but did not eliminate the income decline. For the small number of single-mother families that move out of the poorest quintile when the incomes of these men are added, a large decline in income from means-tested programs between 1995 and 1997 was more than offset by a larger increase in the men's income.

Single Mothers Living Alone

The purpose of this report is to examine changes in the income of single-mother families in recent years. This analysis does not include poor families headed by married couples. If one believes that unrelated men who live with single mothers and their children fully share their income with the mothers and children and therefore that their income ought to be considered in full as part of the family's income, then an analysis of the economic well-being of single-mother families should exclude these families, just as it excludes married-couple families. This section of the chapter considers changes in income among only those single mothers who do not live with unrelated men.

When the income of very low-income single mothers who do not live with unrelated men is considered, we find a statistically significant decline in average disposable income between 1995 and 1997.

Table A-6 shows the change in the average disposable income of the two poorest deciles and two poorest quintiles of single-mother families between 1995 and 1997. The first row of all panels of the table shows the change in the average income of *all* single-mother families, not counting the income of unrelated individuals. The second row shows all single-mother families but adds the income of any unrelated men residing with the families. The third row excludes those single-mother families that reside with unrelated men and displays the income just of single-mother families that live alone. Single-mother families living alone represent about three-quarters of the poorest decile of single-mother families.

Table A-6

Average Disposable Income of Single-Mother Families				
			Change from 1995 to 1997	
	1995	1997	Dollars	Percent
Poorest Decile				
All single-mother families (single mother's income only)	$5,687	$4,873	($814)**	-14.3%**
All single-mother families (including unrelated male income)	$6,861	$6,590	($271)*	-4.0%*
Only single-mother families that do not live with unrelated men	$6,294	$5,929	($365)**	-5.8%**
Second Decile				
All single-mother families (single mother's income only)	$11,584	$11,265	($319)**	-2.8%**
All single-mother families (including unrelated male income)	$12,696	$12,814	$118	0.9%
Only single-mother families that do not live with unrelated men	$12,204	$12,110	($94)	-0.8%
Poorest Quintile				
All single-mother families (single mother's income only)	$8,624	$8,047	($577)**	-6.7%**
All single-mother families (including unrelated male income)	$9,786	$9,685	($101)	-1.0%
Only single-mother families that do not live with unrelated men	$9,254	$9,021	($233)*	-2.5%*
Second Quintile				
All single-mother families (single mother's income only)	$15,747	$15,857	$110	0.7%
All single-mother families (including unrelated male income)	$16,763	$16,971	$208*	1.2%*
Only single-mother families that do not live with unrelated men	$15,913	$16,468	$555**	3.5%**

* statistically significant a = .10 ** statistically significant a = .01

Note: The difference between the first and second rows of each decile or quintile is not only the addition of the income of unrelated men, but also the shifting of families between deciles and quintiles caused by the addition of this income. Therefore, the increase in income between the first and second rows is not the same as the average income of unrelated men in that decile or quintile.

As noted earlier, single-mother families in the poorest decile experienced a significant drop in average disposable income from 1995 to 1997 when the income of the single mother (and related family members) is counted but the income of any unrelated men in the same residential unit is not. Adding the average income of these men reduces the decline in income between these two years, but the decline remains significant. When we examine only those single-mother families that do not live with unrelated men, the decline in income between 1995 and 1997 climbs part way back, to $365 or 5.8 percent.

Among the poorest *quintile* of single-parent families, a somewhat similar pattern holds. Average disposable income for this group fell $577 between 1995 and 1997, or 6.7 percent, when the income of the single mother and related individuals living with her is counted, but that of unrelated men is not. When the income of unrelated men is included, the decline in average disposable income is too small to be statistically significant. But when we look at single-mother families that do not share living quarters with an unrelated male, the income decline ($233, or 2.5 percent) becomes statistically significant again.

A different pattern characterizes the second quintile of single-mother families. Between 1995 and 1997, there was no significant change in the average disposable income of single-mother families in this group either with or without the income of unrelated males. The incomes of single-mother families that lived alone increased by 3.5 percent, however, a statistically significant amount.

Conclusion

This supplementary analysis shows that when the income of unrelated men living in the same residential unit as single-mother families is added to the income of these families, the drop between 1995 and 1997 in the average income of the single-mother families in the bottom decile is reduced but remains statistically significant. For the bottom quintile as a whole, the decline is no longer statistically significant when the income of these men is counted in full but is statistically significant when the bottom quintile of single-mother families that do not live with such men is examined.

This analysis also suggests that only a small fraction of single-mother families live with men who have fairly substantial incomes, while the great majority of these families either do not live with unrelated men or live with men whose incomes are low. For most single-mother families, including the income of unrelated male individuals does not materially change the picture drawn of a decline in overall disposable income between 1995 and 1997.

Because of limitations in the data used in this analysis, we had to make a number of assumptions. The analysis presented in this chapter assumes that all unrelated single men living in the same household with single-mother families shared their income fully with the family, an assumption that likely overstates the contributions of these men. Some additional research on the question of whether and to what extent unrelated men contribute to the income of single-mother families with which they reside would be useful.

We should note that while the income of unrelated men living in the household can make a significant contribution to household income for a small proportion of single-mother families, this does not imply that TANF ought to count such income. Unless a man is the father of the children, he has no legal obligation to share his income with the single-mother family, and it would be very difficult to establish how much of the income of a man living in the household actually is available to the single mother and her children. In addition, the best available evidence is that living arrangements that include such men tend to be unstable. A requirement that such a man's income be included in family income for the purpose of determining program benefits would likely have a detrimental effect on the longevity of these living arrangements.[34]

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[34] Bumpass and Lu found that half of all cohabiting relationships lasted a year or less and only one-tenth lasted five years. Of those that ended, about half ended with the marriage of the cohabiting couple and half ended with their separation. By comparison, four out of five marriages lasted five years or more. Larry Bumpass and Hsien-Hen Lu, "Trends in Cohabitation and Implications for Children's Family Contexts," Center for Demography, University of Wisconsin-Madison, April 1998.

Appendix B:
Data and Methodology

Data

Data from three sources were used in the analyses this paper presents. Most of the analysis relies upon data from the Census Bureau's annual Current Population Survey. The CPS is a nationally representative survey of households that gathers detailed data on income levels and sources of income. It is the source of the annual poverty statistics published by the Census Bureau. This paper relies on CPS data for 1989 (which was collected in March 1990), as well as CPS data for 1993 through 1997 (collected each March from 1994 through 1998). Unless otherwise noted, all figures were calculated by the Center from Census data.

The other two sources are administrative data on welfare caseloads and expenditures, as reported by states to the U.S. Department of Health and Human Services, and food stamp caseloads and expenditures, as reported by states to the Food and Nutrition Service of the U.S. Department of Agriculture. These data were used to analyze trends in AFDC/TANF and food stamp caseloads over the period from 1993 through 1997. Unless otherwise noted, all caseload numbers exclude the territories and are for a calendar year.

Methodology

The analysis in this paper examines trends in the economic well-being of families with children headed by single mothers over the period from 1993 through 1997. All families headed by single women with one or more children under the age of 18 were

included in the analysis except those with negative income or negative self-employment earnings. Following Congressional Budget Office practice, families with negative income and earnings were eliminated from the analysis because they are most likely middle-income families with transitory business losses.

The Census Bureau defines a family as a group of people living together who are related by blood, marriage, or adoption. Following standard Census Bureau practice, we consider all related people living together as one family, even if some members of the family form their own subfamily. For example, a young single mother with a child who lives with her own mother and siblings would be considered a related subfamily that is part of her own mother's family. We counted the income of all members of such a family, not just of the members of the subfamily. (In calculating the official poverty statistics, the Census Bureau does not consider subfamilies consisting of people not related to the primary family — such as roommates or boarders — to be part of the family with which they share a residential unit. Those subfamilies constitute separate families. We follow standard Census methodology here.)

The Current Population Survey (CPS) is not a longitudinal survey; it does not follow the same families over several years. Consequently, it cannot be used to trace the economic well-being of specific families over time. In this analysis, we compare the economic well-being of each fifth (or tenth) of families in 1993 to the economic well-being of families that fall into the same fifth (or tenth) of families in 1995 and 1997. Families represented in the CPS survey that experience changes in their economic circumstances may move up or down in the income distribution, so a family may not be in the same quintile or decile in 1993 as in 1995 or 1997. Each year somewhat different families are in each quintile.

To examine the economic well-being of single-mother families by income level, we first array all such families from the poorest to the richest, based on each family's income-to-needs ratio. The income-to-needs ratio, sometimes referred to as "adjusted income," is the family's income divided by the poverty line for a family of that size. Dividing income by the poverty line adjusts family income for family size and ensures that families in similar economic circumstances are ranked together, regardless of their size. Thus, families with incomes below half of the poverty line are ranked together even though their income levels vary. A family of two with income equal to half the poverty line had income of $5,532 in 1997, while a family of six with income equal to half the poverty line had income of $10,723.

After individuals in single-mother families are ranked by their adjusted family income, they are divided into five groups, or quintiles. Each quintile has about six million people but a slightly different number of families. Larger families tend to be poorer. Thus, as Table B-1 shows, average family size tends to decline as income

Table B-1

Number of Individuals, Families, and Average Family Size by Quintile, 1997		
	Number of Families *(thousands)*	Average Family Size
Decile 1	884	3.4
Decile 2	835	3.6
Quintile 1	1,719	3.5
Quintile 2	1,696	3.6
Quintile 3	1,888	3.2
Quintile 4	1,987	3.0
Quintile 5	1,985	3.0

increases. The upper boundaries of each decile and quintile, expressed as a percentage of the poverty line, are shown in Table B-2.

The methodology used here to rank families by quintile is the same methodology that the Congressional Budget Office and the House Ways and Means Committee use in their analyses of family income levels and sources. Some other researchers have ranked families using a different methodology. Some analyses of income distribution rank families by income, rather than ranking individuals by adjusted family income. When families are ranked by income, all families with the same income level are placed in the

Table B-2

Upper Boundaries of Deciles and Quintiles in 1997				
	As a Percentage of Poverty Threshold		Percentage Change 95-97	Upper Boundary for a Family of Three in 1997 Dollars
	1995	1997		
Decile 1	55.7%	52.0%	-6.6%	$6,724
Decile 2/Quintile 1	75.5%	74.8%	-0.9%	$9,672
Quintile 2	111.1%	111.9%	0.7%	$14,470
Quintile 3	151.7%	155.4%	2.4%	$20,095
Quintile 4	218.5%	222.8%	2.0%	$28,810

same quintile regardless of the number of individuals in the family. A family of two with income of $25,000 is ranked in the same income group as a family of eight with income of $25,000.

There are four alternative methodologies that could be used to sort families into quintiles and deciles. Table B-3 shows the four approaches. The first row of the table reflects the methodology used in this analysis (and in CBO and Ways and Means Committee analyses), whereby individuals are ranked by adjusted family income, with an equal number of individuals in each quintile, and family income averages are weighted by persons. This means that each individual within the quintile is assigned his or her family income level and is counted separately in determining the average income of persons in the quintile.

Table B-3

Comparison of Average Disposable Income in the Bottom Quintile Using Alternative Methodologies (Unadjusted for Underreporting of AFDC/TANF and Food Stamp Benefits)

Methodology	1993	1995	1997	Change in Disposable Income 93-95	Change in Disposable Income 95-97
(1) The preferred methodology: Sorted by adjusted income, with an equal number of persons per quintile, person weighted	$7,588	$8,408	$7,616	$820	($792)
(2) Same as (1), except family weighted	$6,511	$7,285	$6,783	$774	($502)
(3) Same as (2), except equal number of families per quintile	$6,749	$7,698	$7,173	$949	($525)
(4) Same as (3), except sorted by nominal income	$6,043	$6,980	$6,563	$937	($417)

A second method also ranks individuals by adjusted family income and sorts an equal number of individuals into each quintile but then weights incomes by families. In this instance, each family (rather than each individual) is counted separately in determining the average family income of the quintile.

As shown in Table B-3, weighting incomes in the bottom quintile by family rather than by individual results in a lower estimated average income in each of the three years. This is because weighting incomes by individual gives more weight to the incomes of large families than weighting incomes by family. On average, a four-person family gets twice the weight of a two-person family when incomes are weighted by individual, while each family is weighted equally when incomes are weighted by

family. Because large families in the bottom quintile have larger nominal incomes than small families, weighting by individual yields a higher estimate of average income.[35]

If income losses tend to be associated with larger families, the difference between 1995 and 1997 also will be smaller when incomes are weighted by family than when they are weighted by individual. If income losses are not correlated with family size, the income losses between 1995 and 1997 should be similar under the first two methodologies. As shown in Table B-3, the income losses are smaller where family weighting is used, indicating that larger families had greater income losses between 1995 and 1997 than smaller families did.

A third methodology would rank individuals by adjusted family income but then divide the individuals into groups in such a way that each quintile contains the same number of families but a different number of individuals. This third methodology changes the number of families in each quintile. Making each quintile have an equal number of families means that more families will be placed in the bottom quintile because, as Table B-1 shows, under the preferred methodology, the first two quintiles have a smaller number of families than the other quintiles. Since all methodologies array families from poorest to richest, using this method moves some families that are in the second quintile under the first two methodologies into the bottom quintile. As a result, the average income calculated using the third methodology is somewhat higher than the average income calculated using the second methodology. Moving some families from the second quintile to the bottom quintile does not substantially change the estimated income loss between 1995 and 1997 relative to the second methodology.

Finally, families could be ranked by nominal income rather than adjusted income and sorted so each quintile contains the same number of families. As Table B-3 shows, under all of the methodologies, the trends are similar, although the dollar amounts differ somewhat. Regardless of the methodology used, the bottom fifth of single-mother families are found to have had lower average disposable income in 1997 than families in the bottom quintile had in 1995.

While the trends are similar under the alternative methodologies, the magnitude of the income losses are larger when individuals are ranked by adjusted family income. By definition, ranking individuals by adjusted family income sorts the individuals furthest below the poverty line into the bottom quintile. When families are sorted by income level without an adjustment for family size, some large families are sorted into the second or third quintile even though their incomes are below the poverty line, while some small families with incomes above the poverty line are sorted into the bottom

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[35] All families in the bottom quintile have incomes below about 75 percent of the poverty line. However, because the poverty line is higher for large families, large families have higher nominal incomes than small families with comparable adjusted family incomes.

quintile. For example, a family of nine with income of $16,280 has income below half of the poverty line; it would be sorted into the bottom decile using the methodology employed by this analysis. The same family would be in the third quintile if the family were simply ranked by family income level.

If the poorest families, as measured by their incomes relative to the poverty line, are the families that lost ground between 1995 and 1997, sorting families without adjusting income by family size could mask the degree by which the average income of these families fell. This is because large poor families would be spread among several quintiles rather than ranked at the bottom of the income distribution. Conversely, small poor families that gained $2,000 in earnings might remain in the same quintile under such an analysis, but climb into a higher quintile under the methodology this study employs. The methodology used for this analysis ensures that the poorest families are ranked at the bottom of the distribution. This attribute of the methodology is why it is the standard methodology that CBO uses.

Definition of Income

The definition of income used here to rank families differs from the official Census definition. In computing the official poverty figures, the Census Bureau counts only pre-tax cash income. This includes cash transfers such as Social Security and welfare benefits but does not include non-cash government transfers such as food stamps and housing vouchers. Nor does it take into account the effect of taxes or the Earned Income Tax Credit (EITC).

This analysis uses a more comprehensive measure of income recommended for poverty measurement by a 1995 National Academy of Sciences panel. Each family's total disposable income is calculated by adding to the official Census Bureau definition of income the cash value of any food stamps, housing assistance, and school lunches the family receives, as well as any EITC benefits, and deducting state and federal income and payroll taxes the family pays. (The analysis does not subtract property taxes or sales taxes from income and does not include the cash value of Medicaid or Medicare.)

Some adjustments were made to the CPS income data to account for ways in which the CPS data underestimate certain types of income. Specifically, family AFDC/TANF and food stamp benefit levels were adjusted to account for increased underreporting of welfare income over the past few years. The data were not adjusted to account for the increased work expenses of single mothers entering the labor force because data are not available to enable such an adjustment to be made.

Top-coding of Income

The Census Bureau publishes data in a form that sets limits on the dollar amounts shown in individual records for certain types of income and taxes. This "top coding" protects the confidentiality of individuals in the survey. On the CPS files available for public use, for example, federal tax liabilities above $99,999 are shown as $99,999. The specific top-codes on earnings vary depending on the demographic characteristics of the individual but understate the actual earnings of those with very high earnings.

Top-coding can lead to anomalies in the calculation of income after taxes and government transfers. Some very high-income individuals can end up looking as if they have low or modest incomes after taxes and benefits because of top-coding.[36]

This analysis adjusts the incomes of individuals in these very high-income families to ensure they are not included in a lower quintile of the distribution. Families with top-coded incomes or tax liabilities all are sorted into the highest quintile regardless of the after-tax income calculated for these families using top-coded CPS data.

This analysis also omits families with negative incomes and families with negative self-employment earnings. Most families with negative incomes are upper- or middle-class families with transitory business losses or whose federal and state income taxes total an amount greater than the family's top-coded income. The Congressional Budget Office omits these families from its analyses of income trends because negative incomes can distort average income estimates for families in the bottom quintile, making these average income estimates look too low, even though the families with negative incomes are not typically low-income families. The omission of these families has only a small impact on this analysis; fewer than two-tenths of one percent of all single-mother families are omitted from the analysis because of negative incomes or negative earnings.

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[36] The Census Bureau's methodology for imputing federal income taxes, as included in the CPS files available for public use, also causes some high-income individuals to appear to have relatively low incomes after taxes and benefits. Federal income taxes are imputed by the Census Bureau based on each individual's income, *without* top-coding being applied, *plus* capital gains income Census imputes to the individual. Yet capital gains income is not included in the Census Bureau definition of income. As a result, individuals with substantial capital gains income on which capital gains tax is imputed can look as though they have low incomes after taxes and benefits when that is not the case. For example, an elderly couple with $110,000 in income other than capital gains plus very large amounts of capital gains income could have an imputed tax liability of $99,999. The couple could be recorded as having an income of $10,001 after taxes and benefits even though their actual income is much higher.

Underreporting of Welfare Benefits

Some respondents to the Current Population Survey underreport means-tested benefits. The total amount of food stamp, welfare, and other means-tested benefits reported by the CPS has historically been lower than the actual expenditures for these benefits that states report through administrative sources. It is difficult to adjust the data precisely for underreporting, as there is no way to determine whether individuals are understating the level of the benefits they have received or whether some individuals do not report any of the benefits they received. Individuals responding to the survey may forget benefits they received over the past year if they are no longer receiving benefits. Or they may not report benefit receipt because of the stigma associated with receiving benefits or not realize that benefits they receive come from a source mentioned on the survey.

There has been some research to determine why benefit receipt is underreported and to determine which beneficiaries are most likely to underreport means-tested benefit income. These studies indicate that the individuals most likely to underreport benefit receipt are individuals who are married, have the highest incomes among the beneficiary population, have the strongest attachment to the labor force, and receive means-tested transfers for short periods of time.[37]

Because means-tested transfers are underreported, estimates of total benefit receipt based on CPS data will understate actual benefit receipt. So long as the degree of underreporting remains relatively constant over time, however, the reliability of comparisons across different years is not affected.

Table B-4 compares total AFDC/TANF cash benefits and total food stamp benefits from CPS data to administrative data for each year from 1990 to 1997.[38]

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[37] Karen Goudreau, Howard Oberheu, and Denton Vaughan (1984), "An Assessment of the Quality of Survey Reports of Income from the Aid to Families With Dependent Children Program," *Journal of Business and Economic Statistics*, (April), vol.2, no. 2, pp. 179-186.

[38] On the CPS data file, the TANF cash benefit amount is in the same data field as General Assistance (GA) benefits. Another data field allows one to distinguish GA from TANF benefits. Most research analysts that use the CPS data have come to the conclusion that the variable distinguishing the benefits of the two programs is unreliable. The data in Table B-4 assumes that in all years, no GA is received by families with children and no TANF benefits are received by families without related children under 18. Neither of these assumptions is completely accurate, but to some extent they are offsetting. Under this procedure, the amount of GA reported on the CPS survey is estimated to be approximately $1.5 billion. This is somewhat less than the amount of GA from administrative data in a study the Urban Institute presented in 1998. See L. Jerome Gallagher, Cori E. Uccello, Alicia B. Pierce and Erin B. Reidy, *State General Assistance Programs 1998*, The Urban Institute, 1998.

Table B-4

AFDC/TANF and Food Stamp Aggregate Benefits Paid Based Upon Administrative Data Compared to Estimates from Current Population Survey Data (Calendar Year)
(in billions of dollars)

	AFDC/TANF Benefits			Food Stamp Benefits		
	CPS Data	Administrative Data	Ratio	CPS Data	Administrative Data	Ratio
1990	$14.259	$18.855	75.6%	$10.335	$13.556	76.2%
1991	$15.554	$20.804	74.8%	$12.373	$16.551	74.8%
1992	$15.362	$22.258	69.0%	$13.394	$20.014	66.9%
1993	$17.540	$22.307	78.6%	$15.010	$22.253	67.5%
1994	$17.145	$22.753	75.4%	$15.317	$22.701	67.5%
1995	$15.725	$21.524	73.1%	$14.542	$22.712	64.0%
1996	$13.494	$19.710	68.5%	$14.195	$22.440	63.3%
1997	$10.004	$15.893	62.9%	$12.274	$19.570	62.7%

Source: HHS and USDA administrative records, CBPP tabulations of CPS data

From 1993 to 1997, underreporting of AFDC/TANF benefits increased significantly, while underreporting of food stamps benefits increased modestly, as Table B-4 shows. The table displays estimated AFDC/TANF expenditures, based on CPS data, in the first column and actual state-reported AFDC/TANF benefit expenditures in the second column. The third column shows the ratio of CPS-reported expenditures to administratively reported expenditures. Because the CPS is conducted only in the 50 states and the District of Columbia, expenditures for other areas such as U.S. territories are omitted from the administrative data. The figures from the administrative data also exclude expenditures for administration and reflect only the cash or cash value of benefits that recipients were provided.

HHS has not yet released cash benefit expenditure data for TANF/AFDC for calendar year 1997. Calendar year 1997 cash benefit expenditures were estimated using TANF data for fiscal years 1997 and 1998.

As the table shows, from 1990 to 1994, AFDC benefits typically reported on the CPS equaled about 75 percent of actual benefits states reported paying. By 1997, however, reported welfare benefits had fallen to 63 percent of actual benefits paid. This decline could have resulted from a number of factors. One explanation is that

underreporting increased as a result of changes in the names of state welfare programs, which could have led some survey respondents to be confused about the source of welfare income.

Similarly, the right side of the table shows CPS-reported estimates of food stamp benefit expenditures, as compared to administrative data on food stamp expenditures as reported by USDA. The ratio of CPS-reported food stamp expenditures to state-reported expenditures declined over the period, from around 75 percent in the early 1990s to 63 percent by 1997.

To ensure that the major finding of this analysis — that the average disposable income of the bottom fifth of single-mother families fell between 1995 and 1997 — is not an artificial result of the increase in underreporting of means-tested benefits, this analysis adjusts CPS-reported AFDC/TANF benefits and food stamp benefits to compensate for the decline in reporting. The adjustment was done by calculating total benefits that would have been reported to CPS by single-mother families had underreporting remained constant between 1993 and 1997. As shown in Table B-4, for 1993, the ratio of CPS-reported AFDC benefits to AFDC benefits reported by states was 78.6 percent. Had that ratio remained constant between 1993 and 1997, total welfare benefits reported by families with children to the CPS in 1997 would have been $12,497,000 rather than the CPS-reported benefits of $10,004,000. The difference, $2.5 billion, is the amount by which we adjust the CPS data for *all* families with children for 1997.[39] A portion of these underreported welfare benefits went to low-income male-headed and married-couple families with children; in conducting this analysis, we added the portion of this $2.5 billion that applies to single-mother families to the incomes of such families. The same process is followed for food stamps. The total amount of cash assistance and food stamp benefits added to the income of *all* families is $2.0 billion in 1995 and $3.4 billion in 1997. The total amount added to the incomes of single-mother families with children is $1.2 billion in 1995 and $2.4 billion in 1997.

To make the adjustment, the additional benefits that would have been reported if the ratio of CPS-reported benefits to state-reported expenditures had remained constant was added to the AFDC/TANF benefits the CPS data show each quintile received, based on the distribution of reported benefits. For example, 29.5 percent of AFDC/TANF benefits reported by single-mother families were received by families in the bottom fifth of the distribution in 1997. We therefore assume that 29.5 percent of unreported AFDC/TANF benefits also go to the bottom fifth of single-mother families. The resulting estimates of the average welfare benefit that single-mother families in

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[39] The analysis did not fully adjust the data to compensate for all underreporting because research has shown that much of the unreported welfare income is misreported as another type of income. Fully adjusting the data to account for 100 percent of the underreported welfare income would likely lead to an overestimate of average family income.

each quintile received is therefore higher than the estimates derived from the CPS alone. (The Census Bureau makes no adjustment for underreporting.)

A similar procedure was used to adjust food stamp benefits. The portion of each year's underreported food stamp benefits attributed to single-mother families was allocated to each quintile based on the distribution of reported food stamp benefits.

As mentioned earlier, research indicates that the beneficiaries most likely to underreport means-tested benefit income are individuals who are married now (but were single mothers when the cash assistance benefits and food stamps were received), have higher incomes or stronger attachments to the labor force, or received benefits for only a short period of time. If this research is correct, the procedure employed in this study may overadjust family incomes in the poorest quintile and consequently result in a small underestimate of the degree to which disposable family income declined in this quintile between 1995 and 1997 (and a small overestimate of the degree to which income increased in this quintile between 1993 and 1995).

Table B-5 shows the degree to which the adjustment for increased under-reporting of benefits affected the results of the analysis. The adjustment for under-reporting decreases the estimated drop in average disposable income between 1995 and

Table B-5

Cash Assistance and Disposable Income Adjusted for CPS Undercount versus Unadjusted for CPS Undercount *(1997 Dollars)*

	Average Disposable Income			Change	
	1993	1995	1997	1993 - 1995	1995 - 1997
Decile 1					
Adjusted	$4,888	$5,687	$4,873	$799	-$814
Unadjusted	$4,888	$5,556	$4,613	$668	-$943
Decile 2					
Adjusted	$10,304	$11,584	$11,265	$1,280	-$319
Unadjusted	$10,307	$11,262	$10,653	$955	-$609
Quintile 1					
Adjusted	$7,588	$8,624	$8,047	$1,036	-$577
Unadjusted	$7,588	$8,408	$7,616	$820	-$792
Quintile 2					
Adjusted	$13,433	$15,747	$15,857	$2,314	$110
Unadjusted	$13,433	$15,435	$15,287	$2,002	-$148

1997. Had we not adjusted for underreporting, the estimated declines in average disposable income among the poorest single-mother families would have been greater.

Work-related Expenses

The most comprehensive and accurate measure of family well-being would take into account not only a family's disposable income but also the family's work-related expenses. One could argue that a single-mother family with one child whose entire income consists of $5,000 per year in cash assistance is better off than a similar family whose entire income consists of $5,000 per year in earnings. The family with earnings may need to use some of those earnings to cover the costs of child care and other work-related expenses, such as transportation, that the family receiving cash assistance does not incur.

This analysis does not adjust income for work-related expenses. Data to make such an adjustment are not available. If the data were available, the inclusion of work-related expenses could impact some of the findings of the analysis. For example, if families that are working more hours and receiving higher earnings have to cover a substantial portion of the cost of the increased work-related expenses that result from their greater work effort, some of the income gains reported in this analysis may not represent improvements in well-being. On the other hand, if government expenditures on such work supports as child care and transportation are sufficient, on average, to compensate families entering the labor force fully for their increased expenses, the reported income gains would represent true improvements in well-being.

Some rough estimates of the total annual cost of child care incurred by single mothers that left TANF for work between 1994 and 1998 show that $4.1 billion to $7.8 billion would be needed to cover fully the cost of child care for these families in 1998.[40] Federal and state expenditures on child care have at most increased an estimated $3.1 billion per year. These estimates seem to suggest that increased government expenditures on child care have not been sufficient to compensate low-income single mothers leaving TANF fully for their increased child care costs. Based upon this evidence, this analysis probably overstates somewhat the improvements in the well-being of these families.

Further evidence is provided by a study of families leaving cash assistance by the Urban Institute, which found that only 20 percent of these families were receiving

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[40] Douglas Besharov, Nazanin Samari, and Peter Germanis, "Child Care Issues," unpublished data presented at the House Ways and Means Committee Welfare Policy Luncheon, May 14, 1999.

government-funded child care. For many families that work after leaving welfare and incur child care costs, such costs are not being reimbursed.[41]

Reliability of the Estimates

Throughout this analysis, changes are evaluated for statistical significance using standard Census Bureau methodology for calculating standard errors and confidence intervals. If a change is statistically significant according to a commonly-used statistical test, we are at least 90 percent certain that the direction of the change noted (i.e., whether income rose or fell) is correct.

Some researchers have argued that some data for the very lowest income families reported to the CPS are not reliable and that such data may influence estimates for the bottom decile. To ensure that the results for the bottom decile are robust, we calculated the changes in average disposable income for individuals that fall between the fifth and the 15th percentiles of the distribution, as well as the income change at the tenth percentile. Table B-6 shows that these different measures of the changes in disposable income from 1993 to 1997 vary from each other in a constant pattern and do not vary widely.

Table B-6

Average Disposable Income Adjusted for CPS Undercount					
	Average Disposable Income			Change	
	1993	1995	1997	1993-1995	1995-1997
Bottom Decile	$4,888	$5,687	$4,873	$799	($814)
Second Decile	$10,304	$11,584	$11,265	$1,280	($319)
5th to 15th Percentile	$8,159	$9,647	$8,984	$1,488	($663)
10th Percentile[1]	$7,278	$8,959	$8,312	$1,681	($647)
Bottom Quintile	$7,588	$8,624	$8,047	$1,036	($577)

[1] This row is the adjusted family income at the 10th percentile for a family with an average number of persons.

[41] Pamela Loprest, "Families Who Left Welfare: Who Are They and How Are They Doing?" The Urban Institute, 1999.

Trends in earnings and income for individuals in the fifth to fifteenth percentiles and at the tenth percentile are similar to the trends for individuals in the bottom decile. For all these groups, earnings and average disposable income increased between 1993 and 1995 and then fell between 1995 and 1997. The conclusion holds that income losses between 1995 and 1997 are greatest for the poorest families.

This table shows that these estimates were not unduly influenced by individuals at the very bottom of the income distribution, for whom data may be less reliable. The basic findings of the report continue to hold if the poorest five percent of individuals are omitted from the analysis.

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